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Separate sections

FINANCIAL TIMES

Wednesday May 20 1992 — EUROPE'S BUSINESS NEWSPAPER — D8523A

Fall in US housing starts renews hopes of rate cut

The biggest monthly drop in US housing starts for more than eight years prompted renewed speculation that the Federal Reserve might soon signal another small cut in interest rates and helped push the Dow Jones industrial average to a record high.

On Wall Street the benchmark long bond rose half a point on the news, signalling traders' hopes of an interest rate cut. The Dow Jones industrial average closed up 21.96 to end at a record high 3,397.99. Page 16; Treasuries advance, Page 22; Currencies, Page 36; US stocks, Page 37

Aid threat: Spain will withhold co-operation on enlarging the European Community unless it wins speedy agreement on bringing into operation a new EC mechanism for channelling resources to poorer countries. Page 16

Japan dumped minivans: The US Commerce Department ruled that Japanese carmakers sold minivans in the US at less than fair value. If the US International Trade Commission decides that domestic carmakers have been damaged, punitive duties may be imposed on the vans.

Annexation claim: Armenia is annexing large parts of Azeribaijan, a deputy chairman of the Azerbaijan Popular Front claimed. He said there was fighting around four key towns. Page 2

Pledge on economy: The UK government and the Bank of England served notice that the battle against inflation would remain the centrepiece of their economic strategy despite signs that the recession is coming to an end. Page 16; Rising output, Page 8

Pay peace: The last significant threat of further labour unrest in west Germany this year evaporated with agreement on a pay rise for construction workers. Page 2; Editorial Comment, Page 14

Kazakhstan promise on nuclear weapons

Kazakhstan president Nursultan Nazarbayev (left at the Tomb of the Unknown Soldier in Washington yesterday) said during his visit to the US that he would commit his country to the Start treaty aimed at the reducing long-range nuclear weapons. Ex-Soviet republics to settle Start row, Page 2; Chevron signs Kazakh deal, Page 7

Poll threat: Kim Young Sam won the presidential nomination of South Korea's ruling Democratic Liberal party but his victory was soured by the possibility that his only challenger may launch an independent bid for the post. Page 4

Morton International, US salt, chemicals and car components group, is to invest "hundreds of millions of dollars" in a European factory making emergency airbags for cars. Page 6

New party: An extra dimension was added to Hong Kong politics with the formation of a pro-Beijing party, the Democratic Alliance for Betterment of Hong Kong. Page 4

'Bias' probe: Federal banking regulators are investigating the lending records of 266 US banks suspected of having discriminated against customers from minority groups. Page 7

British Airways has staged a strong recovery from the worst-ever slump in civil aviation with pre-tax profits more than doubling in the year to March 31. Page 17

Action ruled out: The UK government signalled that it would take no action against US pilots involved in the deaths of nine UK soldiers killed by "friendly fire" in the Gulf war. Page 9

Olympia & York told holders of securities in its 55 Water Street property, the world's largest office building, that they faced huge losses on their investment but could not rely on O&Y to bail them out. Page 17

Rising demand: New car sales in west Europe rose in April by 0.4 per cent helped by a strong rise in demand in Italy and Spain and the first sign of a recovery in the UK. Page 3

Drug 'safe': Halcion, the controversial sleeping pill made by Upjohn, has been found by an advisory panel to the US Food and Drug Administration to be safe and effective at low doses. Page 7

Glasnost: UK prime minister John Major has broken with tradition by revealing details of the the ministerial committees which underpin government decision-making. The system has until now been shrouded in secrecy. Details, Page 11

Pinault, French company which won a controversial bid for the Au Printemps department store chain, is selling its timber business. Page 18

■ STOCK MARKET INDICES

FT-SE 100:	2709.5	(-3.0)
Yield	4.52	
FT-SE Eurotrack 100	1,180.65	(-3.75)
FT-A All Share	1,312.97	(-0%)
Nikkei	18,754.11	(+311.01)
New York:		
Dow Jones Ind Ave	3,397.99	(+21.96)
S&P Composite	416.37	(+3.56)

■ US CLOSING RATES

Federal Funds:	3¾%	(3$\frac{13}{16}$%)
3-mo Treas Bills: Yld	3.661%	(3.682%)
Long Bond	102$\frac{23}{32}$	(102)
Yield	7.758%	(7.82%)

■ LONDON MONEY

3-mo Interbank	10$\frac{1}{16}$%	(10%)
Liffe long gilt future:	Jun 99 $\frac{7}{32}$	(Jun 99$\frac{11}{32}$)

■ NORTH SEA OIL (Argus)

Brent 15-day July	$19.20	(19.55)

■ Gold

New York Comex	$338.2	(339.3)
London	$337.5	(338.7)

■ STERLING

New York:		
$	1.8385	(1.836)
London:		
$	1.839	(1.8355)
DM	2.925	(2.9275)
FFr	9.8375	(9.8325)
SFr	2.6875	(2.69)
Y	237.5	(236.25)
£ Index	93	(same)

■ DOLLAR

New York:		
DM	1.59065	(1.59565)
FFr	5.347	(5.358)
SFr	1.45	(1.4657)
Y	129.125	(128.8)
London:		
DM	1.5905	(1.5955)
FFr	5.35	(5.5375)
SFr	1.461	(1.465)
Y	129.1	(128.75)
$ Index	63	(same)

Tokyo close Y 129

Austria	Sch30	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR9.00		
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10		
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50		
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1,000		
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L8000		
France	FFr8.50	Kuwait	Fils.500	Poland	Zl 18,000	UAE	Dh9.00		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190				
Greece	Dr250	Lux	LFr60	Qatar	QR10.00				

Thai protesters defy army crackdown

By Victor Mallet and Peter Ungphakorn in Bangkok

A MILITARY crackdown on pro-democracy activists in Bangkok failed to clear protesters off the streets yesterday as demonstrations continued for a third day and unrest spread to other parts of the country.

The beleaguered government of Gen Suchinda Kraprayoon, the prime minister, has withheld details of casualties in the bloodiest clashes seen in the Thai capital since 1976, but information from hospital doctors suggested that at least 50 people had been killed since Sunday night.

The US yesterday significantly increased its pressure on the Bangkok government to resolve the current unrest peacefully.

First the Pentagon announced it was suspending US participation in a joint military exercise with Thai forces. About 9,500 US troops were involved in the operation known as Cobra Gold.

Mr Pete Williams, the defence department spokesman said: "We think it makes common sense at a time of problems in Bangkok not to have pictures of US forces storming the beaches in Thailand."

Second, Mrs Margaret Tutwiler, the state department spokeswoman, said it was clear "that a normal relationship with the Thai government under current conditions will be impossible."

She said that the US ambassador in Bangkok had told Gen Suchinda Kraprayoon, the prime minister, "to refrain from the use of deadly force and to take measures to heal Thailand's domestic wounds." She added that a similar message had been conveyed to Thai opposition leaders.

Earlier the state department had advised US citizens not to visit Bangkok. Last year the US suspended most aid to Thailand following the military coup masterminded by Gen Suchinda, and Ms Tutwiler said yesterday all military and economic aid was now on "indefinite hold," with the single exception of a $4m a year anti-narcotics programme.

Last night a crowd of several thousand demonstrators barricaded a highway outside Ramkhamhaeng university in eastern Bangkok. Although they were defying a ban under the state of emergency on gatherings of 10 or more people, security forces made no immediate attempt to disperse them.

Thousands of protesters were also reported to have rallied in Songkhla, a university town and provincial capital in the south of Thailand. Smaller demonstrations have taken place in other towns around the country, including the resort island of Phuket.

The privy council met yesterday in emergency session and a group of influential academics submitted an appeal to King Bhumipol Adulyadej to break the deadlock. Thais are beginning to hope the king will intervene to resolve the matter as he did at

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Foreign investors uneasy, Page 4
Young tiger's ugly roar, Page 14
Military might crushes Thai equities, Back Page, Section II

German industry urges Bonn not to pull out of aerospace venture

Warning on European fighter programme

By Quentin Peel in Bonn and Andrew Fisher in Stuttgart

THE GERMAN defence and aerospace industries launched a furious last-ditch defence yesterday to save their participation in the European Fighter Aircraft (EFA), which is being built with Britain, Italy and Spain.

Mr Edzard Reuter, chief executive of Daimler-Benz, Germany's largest industrial group and chief contractor for the EFA through its Deutsche Aerospace subsidiary, warned that a decision to pull out would damage the entire German economy.

"The issues concern technologies which were developed at great expense and with great effort and have become key factors in an entire economy," he said.

The national federation for defence and aerospace industries sent an urgent plea to the key decision-makers not to withdraw from the project, less than two weeks before Mr Volker Rühe, the German defence minister, is due to make his final recommendation to the three parties in the government coalition.

At the same time the Bavaria-based Christian Social Union, the smallest partner in the ruling coalition, has demanded top-level talks with Mr Helmut Kohl, the chancellor, to head off the expected negative decision.

The party leadership has made it clear that the decision over EFA, which will be built primarily in Bavaria, is a fundamental one for the coalition, and must be agreed by all three parties.

In a barely disguised attack on Mr Rühe and his colleague Mr Jürgen Möllemann, the economics minister, Mr Reuter denounced "short-sightedness, aggravated by rose-coloured, populist spectacles". Mr Möllemann is a public opponent of the aircraft, and Mr Rühe is widely reported to have made up his mind to pull out.

If Germany quit the EFA project and also cut its support for the two European manned space projects – the Hermes space shuttle and Columbus space platform – it would "risk shaking the foundations of an entire industry . . . because of relatively small gaps in the federal budget," Mr Reuter said.

The appeal to all the members of Germany's parliamentary budget and defence committees, to Mr Rühe and Mr Möllemann, was sent by Mr Karl Dersch, president of the Federation of the German Aerospace and Defence Industry (BDLI).

Mr Dersch said it was agreed in all the leading political parties that Germany needed a new fighter aircraft to ensure its air security.

He quoted a price for the aircraft including equipment, and value added tax, of DM98m ($59.3m), based on a "fly-away" price of DM68m. If all the tax revenues due to the government from the manufacturing process in Germany were deducted, he said, the real "net" price to the state budget was only DM29m. Every foreign competitor would be at least twice as expensive.

The BDLI has calculated that 20,000 jobs in Germany would be at stake if the government pulled out of the EFA project.

Editorial comment, Page 14
Daimler results, Page 18

Daimler-Benz chief Edzard Reuter: EFA technologies are a key factor in the economy

Italy must act to meet Emu targets, say EC ministers

By Andrew Hill in Brussels

ITALIAN economic policy was in danger of sliding out of control, European Community finance ministers said yesterday.

They called on Italy's caretaker government to take drastic and immediate action "to put the Italian budget back on the track" towards economic and monetary union (Emu).

In a strongly worded communiqué, the ministers said that there would be "significant adverse repercussions throughout the Community" if Italy failed to meet the economic convergence criteria laid down in the Maastricht treaty by 1996.

They added: "Strong measures cannot be further postponed, as the size of the emerging slippage is such as to undermine the credibility of Italian economic policy."

Italy presented plans to improve its budget deficit and reduce inflation last November, but EC ministers are worried that not enough has been done since then to meet stated targets. They estimate that a L30,000bn ($24bn) package of spending cuts and reforms is needed if Italy is to meet its 1992 target of reducing the deficit to L127,800bn.

Mr Guido Carli, the Italian finance minister who lost his seat in the recent election, said priority should be given to reforming the healthcare and pensions system once a new government was formed.

Finance ministers also expressed their concern that German plans to meet the Emu targets might be over-optimistic.

Mr Theo Waigel, the country's finance minister, said inflation – which stood at 4.7 per cent in April – could come down to 3.75 per cent by the end of this year.

He added that the general government deficit would rise from 2.8 per cent of gross domestic product last year to 3.1 per cent this year, before returning to 2.6 per cent in 1993 – well inside the Emu target of 3 per cent by 1996.

But Mr Waigel's figures contradicted those approved by the ministers, which indicated a deficit of 4.1 per cent in 1992, dropping to 3.3 per cent next year and 1.9 per cent by 1995.

Mr Waigel tried to reassure fellow ministers that central government would be able to hold in check the spending of the German Länder and municipal councils.

But Mr Carlos Solchaga, the Spanish finance minister, afterwards voiced other ministers' scepticism about the German plans and the effectiveness of economic co-operation between Bonn and the Länder.

His own country has imposed much stricter budget deficit targets than Germany.

For once, ministers did not take the opportunity to attack German interest rate and wage policy, although they did underline that Germany should aim for a good policy mix.

Spanish threat, Page 16

Show trial of Croats by Serb military

By Laura Silber in Belgrade

FRANZ KAFKA would have felt at home yesterday in the first floor courtroom in Belgrade's main military courthouse. Seven pallid prisoners, all looking bewildered and one obviously mentally disturbed, sat facing five military judges, whose uniforms were decorated with from two to five stars.

Above them the eternal flame, the communist emblem of the defunct Yugoslav federation, was still firmly fixed to the wood-panelled walls. A row of seven clean-cut military policemen in camouflage uniforms separated the defendants from the spectators and some scowling Belgrade journalists. The main witness, who was present at the hearing, cursed and jeered at the seven: "Ustashe animals", using the Serbian epithet for Croats.

The men, Croat nationals, who are accused by the Yugoslav army of war crimes and taking part in an "armed uprising against Yugoslavia," are the principal players in what may herald the start of a series of show trials. The seven are Croats from a village near Vukovar, the devastated city in eastern Croatia. They are accused of crimes last autumn at the height of the army siege of the town. The crimes range from murder to "endangering the security of the Socialist Federated Republic of Yugoslavia".

The defendants, who face the death penalty, are being tried by a military court although they are all civilians.

A guilty verdict looked predetermined as most of the defendants were not allowed to choose their own defence lawyers. Instead they were awarded "defence" counsels from the ranks of embittered Serb refugees from Croatia.

Mrs Nadezhda Danilovic, a defence lawyer from Belgrade, yesterday raised objections to the military tribunal, saying that the court was not authorised to try Croat, now foreign, citizens.

Defence lawyers fear that Serbia's state-controlled media will use this and other trials to pump up hatred of Croats in order to channel popular resentment at the collapsing economy.

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Bosnia-Croatia talks, Page 3

CONTENTS

Construction pay agreed in Germany

By Christopher Parkes in Bonn

THE LAST significant threat of further labour unrest in west Germany this year evaporated yesterday with agreement on a 5.8 per cent pay rise for 1m construction workers.

The settlement, which followed on the heels of a similar deal struck at midnight on Sunday for almost 4m engineering workers and the recent 5.4 per cent rise for around 3m public servants, effectively concluded this year's pay round.

While strike action in other industries cannot be ruled out – traditionally militant printers invaded arbitration talks yesterday to press their case for 11 per cent – negotiations in the key sectors are now complete.

The results so far suggest a national average award marginally below the 6 per cent adopted as the most likely outcome by government and independent forecasters in their 1992 economic predictions.

Yesterday's construction deal coincided with the release of an upbeat report by HDB, the main industry association. The weakness in the overall economy had slowed building development but could not stop it, Mr Hermann Becker, association president, said last night.

He expected real growth in the west this year of 2-3 per cent, despite the effects of a severe spending squeeze on the public sector. New orders in the east in the first four months of the year were a real 55 per cent higher than in 1991, Mr Becker added.

The nominal increase of 70 per cent had been eroded by the rapid rise in labour costs, he said. Wages in east Germany would increase to 77 per cent of western levels as a result of yesterday's pay deal.

Total construction output in the east, where the upswing was still "unsteady", was expected to show a 17 per cent increase for the full year, Mr Becker said. Longer term, new estimates showed that DM2,400bn ($1,454bn) would have to be spent on construction in the east over the next 15 years to bring housing, working and environmental facilities up to western standards.

Editorial comment, Page 14

Germany yesterday promised to find some new way to charge foreign lorries using its road network for transit, after the European Court of Justice ruled that its present tax plan was contrary to the Treaty of Rome, writes Quentin Peel in Bonn.

Mr Günther Krause, transport minister, expressed disappointment at the result, and promised to put forward a new plan which would be "fair to German interests and conform to EC law".

He said the government's aim remained the same: to ensure that all road haulage should pay directly for using German roads. This should reduce congestion on the autobahn system, strengthen the competitiveness of the railways, and make the whole transport system more environmentally friendly.

The tax would have required all heavy goods vehicles using the German roads, with a permitted loaded weight in excess of 18 tonnes, to pay an annual licence fee ranging from DM2,000 ($1,210) to DM9,000 ($5,450). The European Court decided the tax contravened the article of the Rome Treaty forbidding discrimination against road hauliers from other member states.

NEWS IN BRIEF

Ex-Soviet republics to settle Start row

THE former Soviet Union's four "nuclear" republics – Russia, Kazakhstan, Ukraine, Belarus – are expected to agree this weekend to jointly honour the long-delayed Start treaty reducing long-range nuclear arsenals, writes Leyla Boulton in Moscow. A Russian Foreign Ministry official said they would sign a protocol to be attached to the treaty.

Russia had originally argued that it should ratify the treaty with the US on behalf of other republics in the process.

Ukraine budget set

Ukraine's parliament yesterday partially endorsed the state budget for 1992, after rejecting three earlier versions, writes Chrystia Freeland in Kiev. The budget, which sets total expenditure at Rbs1,179bn with a deficit of 2 per cent of gross domestic product, was attacked by reformers for failing to initiate structural economic changes and by hardliners for capping social subsides. Deputies endorsed the budget in principle and ordered the government to present a final draft by June 15.

Swedish tax cuts

The Swedish government is to lower corporate tax on dividends, interest payments and capital gains from 30 per cent to 25, writes Robert Taylor. Companies will also be able to set off for tax purposes current losses against profits made in earlier years.

French output falls

French industrial production fell by 0.4 per cent in March from February, according to seasonally adjusted data from the national statistics office, Reuter reports from Paris.

Armenia 'annexing' part of Azerbaijan

By John Lloyd in Baku

FIGHTING between Armenian and Azerbaijani forces is now going on in or around four key towns on Azerbaijani territory, according to a senior Azerbaijani politician.

Mr Niazi Ibragimov, a deputy chairman of the Azerbaijan Popular Front, said last night that Armenia was "annexing" major parts of Azeribaijan territory and that "the world community must know what is happening – it has encouraged it to happen."

The escalation of the fighting over the past few days has raised the conflict between the two Caucasian republics to a level of virtual war, with the smaller Armenian republic attacking strongly on two fronts.

Mr Ibragimov said that a land corridor between Armenia and the Armenia-dominated enclave of Nagorno-Karabakh in Azerbaijan was now under Armenian control and that Sadarak on the north-east of the Azerbaijani autonomous republic of Nakhichevan – which is between Armenia and Turkey – was last night being hit by rockets.

"All of the fighting is now on Azerbaijani territory – at Agdam (to the east of Karabakh), Fizuli (to its south), Lachin (to its west, and to the end of the Armenian corridor) and Sadarak. The Azerbaijani population of Karabakh has been partly destroyed, partly made refugees. And the world's press and governments go on babbling about the plight of the Armenians in Karabakh."

The Popular Front has now taken political control in the Azerbaijani capital of Baku, with the election on Monday of *Mr Isa Gambarov*, a deputy chairman of the Front, as Speaker of parliament and acting president. Mr Ibragimov said presidential elections would take place on June 7 "unless the situation in Baku is destabilised." He also promised parliamentary elections within the year, under the same conditions.

The republic, with 7m population, is potentially rich in oil in offshore deposits now being prospected by a group of western oil companies including Amoco and BP.

An Amoco representative in Baku said last night that the leaders of the republic's oil and gas corporation remained in place, and he expected them to continue to do so.

Mr Ayaz Mutalibov, the former communist president who briefly took power last Thursday was, according to unconfirmed reports, in a Moscow military hospital last night after fleeing Baku from a military airfield. Mr Ibragimov said he did not expect any attempt at a further coup from Mr Mutalibov's supporters.

The Popular Front, a secular force created by intellectuals four years ago, and favouring closer relations with Turkey, now controls half the 50 seats in the Meijlis, or National Council of the republic.

He said Russian intelligence services had collaborated in the attempted rehabilitation of Mr Mutalibov last week because Russia believed he would have sought closer relations with the Commonwealth of Independent States. Azerbaijan, with four other CIS members, refused to sign a pact on collective security in Tashkent last Friday. Armenia, with Russia, was among the six which did sign.

Mr Ibragimov said that the Azerbaijani forces had grown from a mere 150-strong national guard in March but lacked organisation and weapons.

Two workers clamp metal rings on the columns of Pisa's Leaning Tower in an attempt to prevent it falling down. Experts said it was a stop-gap measure while they decided on a permanent solution for the crumbling building. The 800-year-old tower has been closed to the public in recent years because of the danger of collapse

No accord in Moscow with IMF

By Leyla Boulton in Moscow

A TEAM from the International Monetary Fund is to leave Moscow without agreeing the first draft of a Russian economic reform programme which would unlock the $24bn promised by the west because key details remain unresolved.

The Russian government had hoped to agree a letter of intent with the Fund by today so that the final standby programme could be ready in time for President Boris Yeltsin's meeting with Group of Seven leaders in Munich on July 6-7.

The visiting IMF officials are understood to have told the Russian government that despite progress – including moves to liberalise internal oil prices – more work needs to be done. Gaps include a system to control monetary policy with the other former Soviet republics which still use the rouble as their currency. Despite an ultimatum by Russia for republics to decide whether to keep the rouble, Latvia and Belarus have for instance confused matters by deciding to issue surrogate currencies while remaining in the rouble zone.

● Russia's most senior crime prevention officer yesterday urged the government to plan for the consequences of the large-scale unemployment it expects to result from the reforms.

Japan shows 'clear interest' in Community's energy tax plans

By David Gardner in Brussels

JAPAN has expressed "clear interest" in the EC's proposed tax on energy to combat global warming, while the US continues to rule out fiscal means to reduce carbon dioxide emissions, according to Mr Carlo Ripa di Meana, EC environment commissioner.

Mr Ripa di Meana said that at last weekend's informal meeting in Bonn of environment ministers of the Group of Seven most industrialised nations, "there was clear interest from the Japanese side. It is not yet an agreement, but not a refusal. They are studying [the tax] carefully without discarding it."

The Commission proposal, for a $10 per barrel of oil equivalent tax by 2000, levied half on energy value and half on carbon content, depends on the EC's main industrial partners following suit. Environment ministers of the 12 are expected to endorse the thrust of this conditional plan on May 26.

At the Bonn meeting the US expressed "a drastic refusal", Mr Ripa di Meana said.

However, he stressed the "very powerful boost" to the plan in the "unprecedented and unexpected support from the World Bank", contained in its latest development report.

The commissioner believes concerted political pressure could lead Washington to move further, now that in the run-up to the Rio de Janeiro earth summit next month, the US has "accepted the logic of stabilising" CO_2 emissions for the first time.

● The EC's proposed carbon tax would have to be $36 rather than $10 per barrel of oil equivalent if carbon dioxide emissions were to be stabilised in line with international recommendations, according to an economic report published today by Ireland's Economic and Social Research Institute (ESRI), Tim Coone adds from Dublin.

ESRI estimates that the costs of such a tax would be unevenly spread, reducing real gross domestic product in the US and Europe by only 1 per cent, but by over 7 per cent in many energy-exporting less-developed countries.

If the industrialised countries were to act unilaterally to curb emissions, "the costs to their economies would be virtually unchanged from what it would have been under a global agreement. But global CO_2 emissions would continue to grow at around 1.5 per cent per year".

It recommends that emission quotas be made internationally tradeable to provide an economic incentive for less-developed countries to participate in a global agreement.

The Economic Effects of Carbon Taxes. Policy Research Series Paper no.14. The ESRI, 4 Burlington Road, Dublin 4. I£8.00

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Serb irregulars tighten their noose around city of Sarajevo

Bosnia holds secret talks on Croatia link

By Laura Silber

SECRET talks on a confederation between Croatia and Bosnia-Hercegovina were revealed yesterday as Serb irregulars tightened their noose around Sarajevo, the ravaged capital of Bosnia.

News of the negotiations came as Bosnia's rival ethnic leaders were due to resume European Community-brokered peace talks in Lisbon tomorrow. Diplomats however held out little hope the talks would take place as planned. "It is an even question whether the Moslem leaders will be able to leave Sarajevo, where Serb irregulars control the airport.

Croatia's pro-government *media yesterday reported that* Croat and Moslem leaders from Bosnia last week held secret talks in Split, the Croatian port, on a confederal relationship between the two republics and on the internal arrangement of Bosnia. "Confederation of Croatia and Bosnia is acceptable to both the Croatian and Moslem people of Bosnia," a statement said.

Bosnian leaders did not confirm yesterday's disclosure, but talk of a confederation is a sign of the desperation gripping Bosnia's Moslems reeling from the Serb onslaught on Bosnia.

Mr Frederic Maurice, 39, a Swiss relief worker from the International Red Cross, yesterday died in hospital after a mortar attack, which wounded two other relief workers.

Meanwhile the announcement by Serb leaders of plans to form the army of the self-proclaimed Serb Republic of Krajina, southern Croatia, yesterday threatened the UN peace plan. The plan calls for some 14,000 peacekeepers to monitor the demilitarisation and disarming of three crisis areas in Croatia.

A Bosnian soldier keeping guard in front of presidency building in Sarajevo

The Yugoslav army, which is withdrawing from Croatia, is due to complete its withdrawal from Bosnia. But most of its weaponry and personnel are being transferred to the newly-proclaimed Serb army of Bosnia.

The army yesterday left the military airport in Tuzla after evacuating the military barracks, reported Tanjug, the Belgrade-based news agency.

Serb irregulars, backed by the federal army, have seized control of some two-thirds of Bosnia's territory. Relief convoys have been blocked from distributing aid throughout the republic of 4.35m Moslems, Serbs and Croats, desperately short of food and medicine.

● *Italy yesterday approved a* series of administrative measures to cut red tape in the handling of refugees from the fighting in Bosnia. The government stressed the problem should also be dealt with by the entire EC.

Yesterday's measures will *enable local authorities to* react more quickly to any influx of refugees. Italy continues to be haunted by the spectre of the chaos last summer caused by the invasion by boat of thousands of Albanians seeking asylum.

President defies premier

By Nicholas Denton

HUNGARY'S president, citing a danger to "democratic order" in the country, yesterday confronted the government on its attempts to exercise control of the media.

Mr Arpad Goncz, the president and a member of the Liberal opposition, said he was refusing to carry out the prime minister's recommendation to sack the head of the state-owned radio.

He referred to the danger of "serious damage to the democratic operation of the state," a claim rejected by the government, setting the scene for a constitutional stand-off.

Mr *Jozsef* Antall, the conservative premier has made it plain he sees the radio station as hostile to the party's interests. Yesterday he responded with a prickly defence of his government's policy, saying: "poor relations with the press are due to the fact that I have *high standards for the media.*"

It was the latest and most dramatic episode in a struggle between government and opposition for influence over the media which has dominated domestic politics since free elections in 1990.

Hungary steps up clash over Danube dam

By Nicholas Denton in Budapest and Ariane Genillard in Prague

HUNGARY said yesterday it *was officially pulling out of the* controversial Danube hydroelectric scheme, fuelling its fierce row with Czechoslovakia.

Budapest said it was abrogating the 1977 treaty governing construction of the power plant at Bos-Gabcikovo, and was considering turning to the European Community, the Conference for Security and Co-operation in Europe or the international court in The Hague if the Czechoslovaks did not stop building.

Environmentalists regard the project as a communist monstrosity, which will force much of the flow into a 17km-long elevated channel. They claim that the project will *damage water supply and* destroy wetlands.

Slovakia says the work – which is mostly on its side of the border – is 90 per cent complete and that Korunas 20bn (£390m) has been spent.

The issue adds another volatile ingredient to the complicated tensions between Slovakia, the Czech Republic and Hungary. As Slovakia approaches elections which are *likely to produce a more* nationalist government, Hungarian nervousness about the 600,000 fellow nationals there is mounting along with Czech fears of the break-up of the Czechoslovak federation.

Hungary's move follows three years of bitter arguments over the project since Budapest halted its part of the construction in 1989.

The uncompromising tone adopted by both Hungary and Czechoslovakia yesterday underlines the fact that neither side can afford to give in for domestic political reasons.

In Hungary, the democratic opposition which toppled the former regime was born out of hostility to the dam.

*Last week, Mr Villiam Ober*hauser, Slovak minister of forest and water management, said too much damage had been done to reverse the situation ecologically while the plant would produce Kcs6bn a year of power for Slovakia.

W European car sales grow 0.4%

By Kevin Done, Motor Industry Correspondent

NEW car sales in west Europe rose in April by 0.4 per cent helped by a strong rise in demand in Italy and Spain and the first sign of a recovery in the UK.

Demand weakened further in Germany with an estimated 11.2 per cent drop, and in France registrations were 5 per cent lower than a year ago.

According to industry estimates new car sales in west Europe totalled 1.314m last month compared with 1.308m in the same month a year ago. New car sales in Italy jumped by 15.2 *per cent* while sales in *Spain* were *19 per cent higher.*

In the first four months new car sales across 17 markets in west Europe rose by an estimated 0.8 per cent to 5.018m from 4.976m in the corresponding period a year ago. Sales were higher than a year ago in ten of the 17 markets.

The strongest growth in demand this year has been achieved in Spain and in Portugal where new car sales in the first four months have jumped by 26 and 34 per cent.

The 9.1 per cent rise in UK new car sales in April was the first year-on-year increase in 30 months and the first indication that the severest recession in the British car market in the post-war period may have ended.

In the first four months sales were still 6.7 per cent lower than a year ago at 544,317.

Among the big six volume car makers in west Europe Renault and Peugeot have achieved the fastest growth in the first four months this year with increases in sales volume *of 8.9 per cent and 5.2 per cent.*

Volkswagen, achieved a record market share in the first four months of 17.3 per cent further strengthening its seven-year leadership of the west European new car market.

Rover has suffered a 22 per cent fall in demand in the first four months.

WEST EUROPEAN NEW CAR REGISTRATIONS
January-April 1992

	Volume (Units)	Volume Change(%)	Share (%) Jan-Apr 92	Share (%) Jan-Apr 91
TOTAL MARKET	5,018,000	+0.8	100.0	100.0
MANUFACTURERS:				
Volkswagen*(incl. Audi,SEAT&Skoda)	867,000	+4.7	17.3	16.6
Fiat (incl.Lancia, Alfa Romeo,Ferrari Innocenti,Maserati)	633,000	−4.3	12.6	13.3
General Motors (Opel/Vauxhall, US# & Saab)	629,000	−0.3	12.5	12.7
– Opel/Vauxhall	604,000	+0.0	12.0	12.1
– Saab**	18,000	−0.3	0.4	0.4
Peugeot (incl. Citroen)	600,000	+5.2	12.0	11.5
Ford (Europe, US# & Jaguar)	585,000	−3.1	11.7	12.1
– Ford Europe	580,000	−3.0	11.6	12.0
– Jaguar	4,000	−20.4	0.1	0.1
Renault††	539,000	+8.9	10.7	9.9
Nissan	161,000	+0.8	3.2	3.2
BMW	160,000	+18.0	3.2	2.7
Mercedes-Benz	158,000	−5.1	3.1	3.3
Toyota	115,000	−10.1	2.3	2.5
Rover†	104,000	−22.2	2.1	2.7
Mazda	99,000	−7.4	2.0	2.1
Volvo††	79,000	+4.4	1.6	1.5
Honda†	61,000	+5.6	1.2	1.2
Mitsubishi	54,000	−17.4	1.1	1.3
Total Japanese	570,000	−4.1	11.4	11.9
MARKETS:				
Germany	1,470,000	−5.1	29.3	31.1
Italy	944,000	+4.4	18.8	18.2
France	701,000	−0.5	14.0	14.2
United Kingdom	544,000	−6.7	10.8	11.7
Spain	365,000	+26.2	7.3	5.8

#Cars imported from US and sold in western Europe.
**VW holds 31 per cent and management control of Skoda.*
***GM holds 50 per cent and management control of Saab Automobile.*
†Honda holds a 20 per cent stake in Rover vehicle operations.
††Renault and Volvo are linked through minority cross-shareholdings.

Source : Industry estimates

Foreign investors uneasy over Thailand's stability

By Financial Times reporters

LEADING foreign investors in Thailand suggested yesterday that although coups and attempted coups are part of the country risk profile, economic policies had remained generally stable in spite of the periodic political upheaval.

However, in Japan – the biggest source of direct investment into Thailand – the Keidanren, the federation of economic organisations, said Japanese companies now contemplating an investment in the country are likely to rethink their plans. The military crackdown has harmed Thailand's image, it warned.

Thailand has had an important role in the Japanese corporate strategy of relocating manufacturing operations to low-cost south-east Asian sites. Japan's direct foreign investment was $1.28bn in fiscal 1989 and $1.15bn in 1990, sharply up on the $124m of 1986.

Japan accounts for about a quarter of all the country's inward direct investment, followed by the US, Taiwan, Hong Kong and the UK.

Thailand has also become a leading trade partner for Japan, with exports to Thailand rising 3.4 per cent last fiscal year to $9.4bn and imports from Thailand 26.6 per cent higher at $5.2bn, with a significant percentage of the increase being components for Japanese products exported to third countries.

Matsushita Electric Industrial, the electronics company, has four factories in the suburbs of Bangkok and two sales offices in the city. It said that factory production has not been disrupted, but "there has been some disturbance to our sales activities".

"We think the situation is not very serious, but we are watching closely. According to our previous experiences, the Thai people know when to pull back during times of upheaval. We expect that the protests will stop soon," it said.

Toyota Motor, the leading car maker, runs three factories and a sales company in Thailand, which is central to the company's strategy of producing components in a range of south-east Asian countries to create a regional car.

"We are continuing to run our factories, but long-term political stability is important to the success of our operations," the company said.

British companies with interests in Thailand echoed similar sentiments. "The Thais have done well up until now. But if they blow this one they'll be turning the clock back," said one UK businessman with extensive involvements in the region. "We managed to brush off last year's coup, but this latest incident goes much further," he added.

Although Germany is by far the leading EC exporter to Thailand, the UK is becoming more important as a trading partner. UK exports in 1991 were £463.5m ($820m), up from £410.5m the previous year. Main exports included machinery and transport equipment – totalling £219.5m in 1991. UK imports from Thailand were £625.4m from £484m.

'Companies already doing business in Thailand are unlikely to pull out, but those selecting a site for investment in that region may think again,' a Keidanren official said.

Historically, Thailand has not been a starting point for British companies seeking a toe-hold in south-east Asia, but that has changed over recent years. Bangkok's British Chamber of Commerce is now said to be one of the most active in the world, with more than 250 members.

Mr Iain Dale, chief executive of Yorkshire-based Dale Electrics, which has an office and a factory in Bangkok, said: "Thailand must offer stability to investors."

Dale's offices, which are on the Airport Road, and its factory in the capital's Yannawa district, have been closed "because our 50 employees there would have had to have fought their way to work," Mr Dale said. "We'll decide on Thursday when to re-open them." Dale manufactures power generating equipment, and Thailand accounts for about £3m of the group's annual turnover of £55m.

Shell, the oil major which has 1,400 employees in Thailand and last year generated revenues of Baht38.5bn (£824m) there, said operations had not been affected.

BICC, the engineering and construction group, recently completed the £7m international trade centre in the capital and is currently working on a building of similar size for Thailand's biggest newspaper. It also has a £6m cabling contract with the Bangkok post and telecommunications authority. The company said: "We will be watching carefully events in the country."

Wall Street analysts said most US interests in Thailand were in manufacturing plants – assets that could not be liquidated quickly. US companies with operations in the country were, therefore, likely to wait until the situation had become clearer before taking any longer term decisions.

The two closed-end country funds quoted on the New York Stock Exchange, Thai Capital Fund and Thai Fund, showed no significant initial reaction to the violence in Bangkok, although one fund manager privately expressed concern that if the troubles persisted the long-term commitment of US investors could suffer.

Far East equity analysts in New York also noted that interest in Thailand among US investors had levelled off, and perhaps even declined, since the coup last year.

The most immediate impact was being felt by world airlines and holiday companies, in the light of advice by several western governments that its nationals should avoid travel to Bangkok. British Airways suspended flights for 24 hours and Kuoni, the Swiss-owned tour operator, stopped operations into Thailand for a day because of difficulties in moving people to hotels from Bangkok airport.

● *By Robert Thomson in Tokyo, Andrew Slade and Andrew Taylor in London and Patrick Harverson in New York.*

Relative of a missing demonstrator weeps outside Bangkok's Police School detention centre yesterday as a soldier stands guard

Defiant remnant of Kurds go to vote

Gareth Smyth reports from Arbil in northern Iraq

SOUTH of the city of Arbil on a rolling plain that leads to Baghdad lies a scattering of settlements known as Qushtapa. Yesterday its school became a polling station for elections organised by the Kurdistan Front, the guerrilla coalition administering 50,000 sq km of northern Iraq.

First in the queue of 400 women was Mrs Sherve Abdullah, who had arrived at 7am, an hour before the polls opened. She wore the *abaa*, the traditional black veil. Nine years ago her husband and seven sons, aged from 14 to 25, were taken in a dawn raid by soldiers of Iraqi President Saddam Hussein. They, and 8,000 other men from this area, have not been seen since.

Part of the sprawl of Qushtapa is Qadisia, an attractive village built around 1978 by members of the Barzani clan after their forced relocation from tribal lands further north after Baghdad crushed a Kurdish revolt led by the head of the clan, Mullah Mostafa Barzani. The adult inhabitants are almost all women.

Mrs Aisha Otman, who said she was around 40 years old, sat huddled in a shawl as she spoke through an interpreter in one of the two rooms she shares with five children and two grandchildren. She explained how in 1983 soldiers came at dawn and rounded up all the men, including her husband. "They took blind men, old men and handicapped men". Mrs Otman now works in the fields all day "like a man" for 10 dinars (70p), enough to buy a kilo of rice.

In another house Mrs Hergaz Mullah, aged about 50, keeps a picture of two sons in pride of place on the wall. Both were seized in 1983. Two other sons, then aged seven and 15, escaped because they hid in a shelter built against Iranian air raids: she said they are now bodyguards to Mr Massoud Barzani, son of Mullah Mustafa and leader of the Kurdistan Democratic Party (KDP), one of the two main parties contesting the elections.

The Barzani women of Qushtapa voted for the KDP yesterday, not because they prefer the party's policy of "autonomy" over the "self-determination" advocated by Mr Jalal Talabani's Patriotic Union of Kurdistan (PUK). Mrs Otman said she didn't mind if Mr Barzani did not win – "we just want to be Kurdish".

There were still long queues outside voting stations at 8pm local time. Mr Hoshyar Zebari, a leading member of the KDP, said last night that "the high turnout is a challenge to the Iraqi government". But he went on: "We do not think an independent state is possible in north Iraq. We are the victims of the theory that we are undermining the sovereignty of Iraq. The Kurds can play an important role in removing Saddam Hussein, but we are not going to be pitted against Saddam's army without support." The minimum condition for an autonomy agreement with Baghdad was that "our people feel they can live in peace".

Qushtapa school is one of 174 polling stations. Over 1m Kurds were expected to have voted for national lists drawn up by seven parties, of which the KDP and PUK are the most popular.

A second ballot, for president, was contested by Mr Barzani and Mr Talabani, along with Mr Mahmood Osman of the Socialist Party and Mullah Othman Abdul Aziz of the Islamic Movement. If no-one gains 50 per cent there will be a second ballot in two weeks.

The result of the elections will be known today or tomorrow. The new Iraqi Kurd administration will have to deal with the complex problems of a region which bares the scars of decades of disruption, war and repression. It will face tensions between attempting to satisfy the aspirations of Kurdish nationalism and allaying the fears of Iran and Turkey that the developments may encourage Kurdish separatism there.

Barely 5km south of Qushtapa is the front line between Kurdish guerrillas and the Iraqi army. Pashmerga guerrillas led by Mr Mosin Maullud, local field commander, two months ago killed eight Iraqi soldiers who tried to capture a telecommunications tower behind Kurdish lines. Yesterday, in contrast to the hubbub at Qushtapa polling station as the Barzani women voted, it was, for the time being at least, all quiet on the front.

Judge orders arrest of Imelda Marcos

By Jose Galang in Manila

THE ARREST of Mrs Imelda Marcos, the once-powerful widow of deposed Philippine dictator Ferdinand Marcos, was ordered yesterday by a Manila judge.

Judge Teresita Flores issued the order after Mrs Marcos failed to appear at an arraignment in connection with charges of failing to report foreign exchange deposits abroad.

Mrs Marcos had been accused by the government of having conspired with her late husband in looting the economy while they were in power.

She had declared she would defy the courts in protest against what she described as "systematic cheating" in the May 11 election where she ran as one of seven presidential candidates.

She ranked fifth in the vote-counting yesterday. Analysts never gave her any chance of winning despite her claim of residual support in the rural areas.

Last Monday, she also snubbed a hearing in another court. The judge in that court gave Mrs Marcos until June 1 to explain why she was unable to appear at the hearing.

Pro-Beijing party formed in HK

By Simon Davies in Hong Kong

A NEW dimension was added to Hong Kong politics yesterday with the formation of a pro-Beijing party, the Democratic Alliance for Betterment of Hong Kong.

The party, which is headed by Mr Tam Yiu-chung, a vocal left-wing legislative councillor, has been funded by pro-Beijing and mainland Chinese companies. But a spokesman was adamant the party is "in no way controlled by China".

Other politicians were less convinced but considered it a positive development that pro-China interests were coming out into the political forum, "rather than just pulling strings in the background".

Mr Tam, who is vice-chairman of the pro-Beijing Federation of Trade Unions, said the group was strongly committed to the reintegration of Hong Kong with China, but it also supported the principle of "Hong Kong people governing Hong Kong".

One of the ultimate stated objectives of the organisation is "the chief executive and all members of the legislature being selected by popular election", but there was some cynicism concerning the time-frame for such a move.

Mr Lee Wing-tat, legislative councillor and spokesman for the United Democratic party, described the claims of the new political group as "just a gesture".

He said "on general domestic policy they may have a free hand. But on sensitive issues they will have to hear the voice of Beijing". Under current plans, only 20 seats, or one third of the Legislative Council, will be directly elected in the 1995 elections.

The pro-Beijing lobby performed poorly in Hong Kong's first direct elections in September 1991.

Split threat to S Korean party

By John Burton in Seoul

MR Kim Young Sam yesterday won the presidential nomination of South Korea's ruling Democratic Liberal Party (DLP) but his victory was soured by the possibility that his only challenger may launch an independent bid for the post.

Mr Lee Jong-Chan, a popular MP from Seoul who withdrew from the nomination race on Sunday in protest against alleged backroom dealing, indicated he was planning to remain in the presidential race as an independent.

If Mr Lee stands, he threatens the chances of Mr Kim, a former opposition leader who joined the ruling party in 1990.

Mr Lee could split the DLP's supporters in the presidential race, which is expected to take place in December.

One measure of Mr Lee's popularity was that he received a third of the nomination votes at yesterday's DLP convention.

Mr Chung Ju-yung, the founder of the Korean business group Hyundai and head of the Unification National Party, is also threatening to attract conservative voters from the DLP.

This would improve the chances of Mr Kim Dae-Jung, the leader of the main opposition Democratic Party, gaining the presidency on his third try since 1971.

● AP adds: Thousands of students hurling rocks and firebombs clashed with police in Seoul and elsewhere yesterday. They said Mr Kim's nomination would mean a continuation of what they called the military-backed government of President Roh Tae Woo. They said Mr Roh's DLP must be disbanded to bring genuine democracy to South Korea.

Police firing tear gas blocked 2,000 students from marching toward Mr Kim's house.

US 'clarifies' Palestinian refugee stance

By Hugh Carnegy in Jerusalem

ISRAEL yesterday expressed satisfaction over a statement by the US that a United Nations resolution asserting the right of return for Palestinian refugees was not part of the terms of reference for the Middle East peace negotiations.

The government had pressed Washington for such a public statement after Ms Margaret Tutwiler, the state department spokeswoman, announced last week that the US supported UN Security Council Resolution 194, adopted in 1948, which included the right of return, or compensation, for Palestinian refugees.

Although not a change in official US policy, Ms Tutwiler's announcement aroused alarm in Israel. Mr David Levy, the foreign minister, said Ms Tutwiler's statement amounted to an obstacle to the negotiating process if it was not "clarified".

Ms Tutwiler said on Monday that the only UN resolutions included in the terms of reference for the peace process were resolutions 242 and 338, which envisage Israel surrendering Arab territory in exchange for peace and a "just" – but unspecified – solution for the 2.5m refugees.

NEWS IN BRIEF

Gulf states see first democracy forum

DEMOCRATS from five Arab states have set up the Gulf's first movement to promote democracy and freedom of expression across a region where political parties are banned, Reuter reports from Kuwait.

The Gulf National Forum (GNF), created at a meeting in Kuwait this month, groups academics, businessmen and professional people from Saudi Arabia, Bahrain, Kuwait, Qatar and the United Arab Emirates. It said it would act as a public advocacy group to promote and defend human rights, democracy and basic freedoms in Gulf Co-operation Council states.

● Five Moroccan opposition parties have joined in a new bloc called the Democratic Front ahead of general elections slated for this year.

Israelis and Palestinians meet

Israeli and Palestinian delegates discussed their region's environmental problems face-to-face for the first time at an international meeting in Tokyo which ended yesterday, Reuter reports from Tokyo. Participants agreed to convene the next meeting in the autumn in the Netherlands.

Nigeria fighting kills up to 300

Up to 300 people have been killed in two days of religious and ethnic fighting in northern Nigeria, according to diplomats in the troubled city of Kaduna, Reuter reports from Lagos. One diplomat said: "I saw mortuaries and hospitals filled with the injured and corpses, some beaten beyond recognition."

Police meanwhile arrested Dr Beko Ransome-Kuti, a leading human rights activist, after he made anti-government remarks.

He is the brother of Mr Olikoye Ransome-Kuti, health minister.

Afghans free Russian prisoner

The Islamic government that ousted the Soviet-installed Afghan regime released a Russian prisoner of war yesterday, calling it the first step toward ending a decade of hostility between two neighbours, AP reports from Kabul.

Keating unable to dispel image of government in turmoil

After the resignation of a key ally, Australia's prime minister must wonder if his luck has run out, writes **Kevin Brown**

MR PAUL KEATING, Australia's prime minister, offered no promises when Labor MPs installed him in place of Mr Bob Hawke in December. Like everyone else, Mr Keating knew that winning the next election would require at least as much luck as leadership.

Until April, he appeared blessed with both as Labor's opinion poll rating surged to within one percentage point of the conservative Liberal/National party opposition, compared with a deficit of 18 points in December.

But the recovery has evaporated in the face of renewed debate over the government's handling of the economy, and growing doubts about the prime minister's political judgment. The latest Newspoll, for yesterday's Australian newspaper, put Labor 12 points behind the conservatives.

Five months into his premiership, Mr Keating has sharpened Labor's image and taken the attack to the conservatives. But he must be wondering if his luck has run out.

His most pressing problem is the resignation of Senator Graham Richardson, a key Labor power broker, over his relationship with an Australian businessman facing forgery charges in the Marshall Islands.

Mr Richardson is a long-time political ally of Mr Keating, and was regarded as one of the most influential members of the government. He denies any impropriety over the Marshall Islands affair, but admits writing a reference for the businessman and telephoning the Marshall Islands government on his behalf.

The affair is especially damaging for the government because it has refocused attention on the relationships between Labor leaders and failed entrepreneurs such as Mr Alan Bond and Mr Laurie Connell, head of the collapsed Rothwell's merchant bank.

The opposition is now trying to prove that Senator Gareth Evans, the foreign minister, was also involved in the Marshall Islands affair, which it claims is a prime example of Labor cronyism, known in Australia as "mateship".

Mr Keating may also have been damaged by revelations that he blocked attempts by a royal commission in Western Australia to investigate the tax records of state politicians and local businessmen accused of corruption.

Mr Keating later backed down, but the public row with the commission left the impression that he had been trying to shield state Labor leaders from potentially embarrassing revelations in another example of mateship.

With hindsight, the turning point for Mr Keating appears to have been Labor's defeat by a protectionist independent candidate in a by-election in mid-April in Mr Hawke's former constituency of Wills, a down-at-heel Melbourne suburb.

The government remains committed to opening Australia's economy through tariff reductions, cuts in subsidies and deregulation. But the by-election defeat showed how much the pain of economic restructuring is resented in industrial seats like Wills, most of which tend to be held by Labor.

Wills also showed how much the government has been hurt by an 18 month recession triggered by high interest rates. Mr Keating will get some credit from voters for the recovery which is now under way, but many will also remember that he was treasurer (finance minister) when the recession began.

Perversely, the recovery is also causing problems for the government because it has been accompanied by a dramatic fall in inflation to a 30-year low of 1.7 per cent. Low inflation may be beneficial for the economy in the long run, but falling interest rates have provoked squeals of anguish from the large numbers of retired people living off the interest on their savings.

Low inflation has also put a question mark over the government's ability to deliver substantial tax cuts promised after the next election, due by mid-1993. The cuts were to be funded mostly from the proceeds of tax indexation, commonly known as bracket creep. But the unexpectedly rapid fall in inflation means the bracket creep windfall will virtually disappear.

The government cannot borrow to finance the cuts because the forecast budget deficit for the year to June has already increased from A$4.7bn to A$9.3bn (£3.97bn), leaving it little room to manoeuvre if it is to achieve its target of returning to surplus by 1996.

Meanwhile, it looks as though an A$2.3bn fiscal stimulus announced in February may fail to reduce unemployment to below 10 per cent before the election.

Mr Keating has had some success in distracting attention from the economy by throwing his weight behind Australian nationalists seeking the abolition of the monarchy and the removal of the British Union flag from the top left quarter of the Australian flag.

However, he has been forced to drop the flag campaign in the face of signs that it is proving counter-productive. In the latest poll in the Bulletin magazine, support for change has fallen to 31 per cent, compared to 33 per cent eight years ago.

Despite the setbacks, Labor remains better placed to fight the election than it was under Mr Hawke, whose government had become directionless and demoralised by factional infighting.

Party officials claim that most of the problems will be forgotten as the economy recovers. If they are right, Mr Keating may yet pull off a record fifth successive election victory.

But the danger for Labor is that he will be unable to dispel the image of a government in turmoil. And that could permanently derail the party's recovery.

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Japan may face dumping duties on vans in US

By Nancy Dunne in Washington and agencies

THE US Commerce Department yesterday ruled that Japanese carmakers have sold minivans in US markets at less than fair value. In a ruling which clears the way for punitive duties on Japanese minivan imports, the Commerce Department said Mazda sold minivans below fair value by 12.70 per cent. Preliminary estimates had put the dumping level at 7.19 per cent.

Toyota was found to have underpriced its minivans by 6.75 per cent; the preliminary dumping estimate was 0.95 per cent. All other vehicles were found to have been underpriced by 9.88 per cent, up from 4.23 per cent in the preliminary investigation. The department makes the estimates on the basis of a fair market value formula.

The complaint now moves to the US International Trade Commission, which is expected to rule by the last week in June on whether the alleged dumping has hurt US industry.

An ITC spokesman said a finding of injury was by no means "a foregone conclusion". Before dumping duties can be imposed, the US carmakers must prove they have been hurt as a result of the "dumped" minivans rather than the recession or American preferences for Japanese vehicles. Injury has been found more often than not in dumping complaints.

The big three US car companies – GM, Ford and Chrysler – asked for the dumping investigation a year ago. They said Japanese minivan exports to the US had soared to $1.2bn (£670m) in 1990. They asked for dumping duties of almost 30 per cent.

After the Commerce Department issued its preliminary findings, Japanese carmakers raised prices and the US carmakers' share of the minivan market increased, analysts said. Mazda and Toyota are the big sellers in the US minivan market. Mitsubishi's sales volume is considered minimal, and Nissan discontinued minivan sales in the US.

US group to put millions into European factory

By Ian Hamilton Fazey, Northern Correspondent

MORTON International, the US chemicals and car components group, is to invest "hundreds of millions of dollars" in a European factory making emergency airbags for cars. The project will create 1,700 jobs by 1995, rising to 3,000 in five years, the company said.

It will be a joint venture with Robert Bosch, the German engineering group, which will make the sensing and diagnostic equipment to trigger airbag inflation designed to protect passengers in a car crash.

Morton, which claims US market leadership in the field, will make the bags. The company's initial list of 100 potential European locations will be cut to three or five in July. Two UK sites are contenders, one in Clwyd, north-east Wales, the other in Consett, Co Durham.

Ms Nancy Hobor, head of corporate communications at Morton's Chicago base, said yesterday: "We have spent $300m (£170m) developing this market in the US and would expect the European investment to be of a similar order."

The Clwyd site is near Toyota's new factory near Chester and Wrexham; Consett is within a few miles of Nissan's Sunderland plant. Both have good motorway links to other carmakers in Britain. Morton has a chemicals operation in Germany, also a contender for the factory because of the size of the German car-making sector and the Bosch connection.

Hungary: robust little exporter in heart of Europe

Comecon's failure has been a spur, **Nicholas Denton** in Budapest and **Anthony Robinson** in London write

AGAINST the odds, Hungary has emerged over the past 15 months as a modest but robust export machine in the heart of depressed central Europe.

Exports to developed western markets rose an unprecedented 31 per cent last year with a further 13 per cent rise in total exports over the first quarter of 1992 compared to the same period last year.

This came despite a marked economic slowdown in the European Community, an effective revaluation of the forint and 35 per cent domestic inflation.

The export drive which saw hard currency earnings soar to $10.2bn (£5.7bn) last year from $6.3bn in 1990 is born out of desperation. Like other former Comecon members, Hungary has faced depressed domestic demand and the collapse of trade with the Soviet Union. The volume of exports to eastern Europe fell by 60 per cent last year, giving many companies a bleak choice: find new, western customers, or go to the wall.

Even Ikarus, the lumbering volume busmaker which supplied all of Comecon from plants in Hungary and used to sell 80 per cent of its output to Moscow alone, has turned further afield and won major orders from Taiwan, Turkey and Iran.

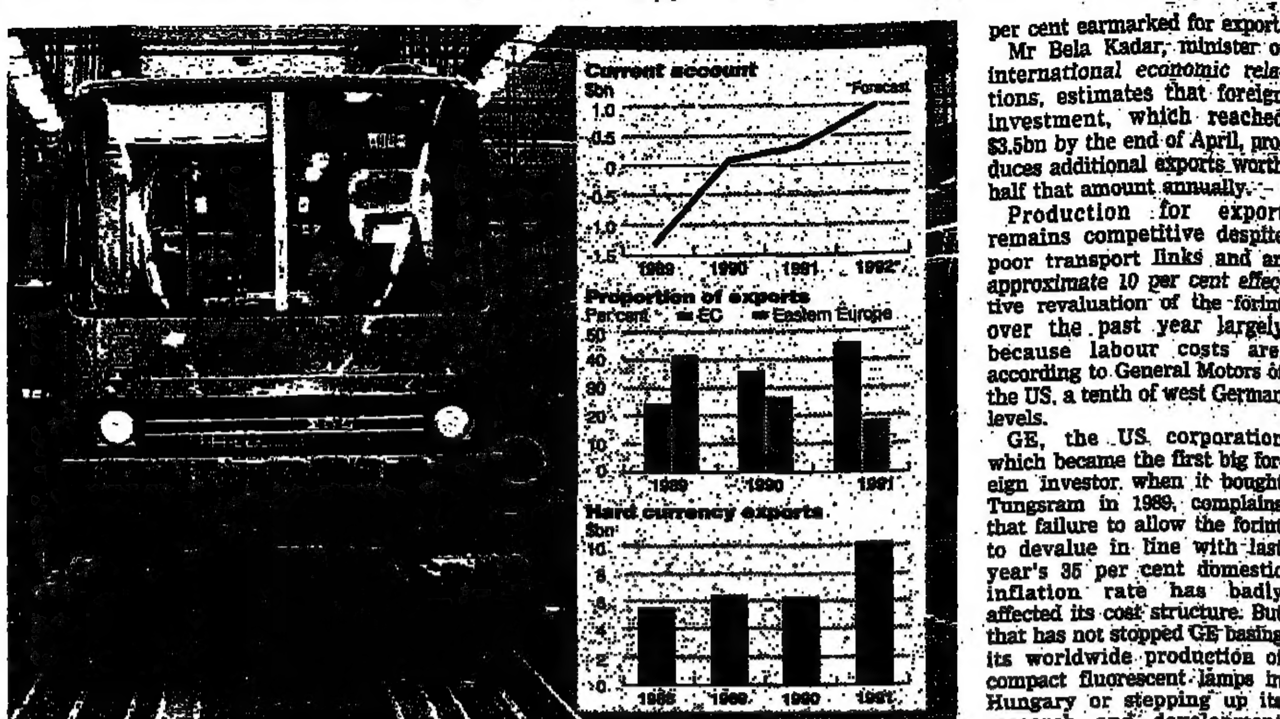
Under the old Comecon division of labour, Hungary specialised in buses, pharmaceutical products, foodstuffs, especially fruit, wine and vegetables, and engineering products, including consumer goods such as lightbulbs and electronic equipment.

The collapse of Comecon has forced exporters to try to upgrade this existing product range where possible for western markets. For some, like the Videoton consumer electronics enterprise, the competition proved overwhelming. But between 1989 and 1991, the share of exports going to EC markets doubled while the share going to eastern Europe halved.

Last year, the former Comecon states took only 19 per cent of Hungary's exports, making it the least dependent on this once-dominant market. Many Hungarian economists caution that overstretched companies have redirected as much production as they can and argue that the pace of export growth to the west is unsustainable.

For the past three years, however, hard-currency exports have far exceeded expectations, pointing to a deeper, continuing transformation. Improved access to western markets has played a part. The free trade accord at the heart of Hungary's association agreement with the EC began to take effect earlier this year. But EC trade barriers will be removed most slowly in three areas where Hungary has the strongest comparative advantage: food, textiles and steel.

A paper presented at the recent European Bank for Reconstruction and Development's annual meeting in Budapest even suggested that



some exporting sectors such as textiles could actually be worse off under the association agreement than under the generalised system of preferences which previously applied. Hungary calculates that export growth attributable to the association agreement could be only $100m-$200m a year.

It is foreign investment and the opening of Hungary to sophisticated EC imports which is making the real difference. Foreign machinery and investment have flowed into the country in response to liberalisation, rapidly improving the competitiveness of Hungarian goods.

Finex, a small locally-owned foreign trader, shows how a little investment can go a long way. The company exported about $125,000-worth of frozen raspberries last year to a German wholesaler, earning more than the $100,000 spent importing the nitrogen flash freezer equipment. This year, the company plans to more than double deliveries and is trying to diversify into selling frozen ready-cooked meals to Sweden, all from the same machine.

Sometimes, investment has even greater leverage on exports. One of Mr Gabor Varszegi's innovations at Ajka Crystal, the glassmaker he took over at the end of 1990, was to publish a catalogue, the first in 40 years.

That little project helped Mr Varszegi, Hungary's leading entrepreneur, to double Ajka's forint sales in the first year of private ownership, with 75-80 per cent earmarked for export.

Mr Bela Kadar, minister of international economic relations, estimates that foreign investment, which reached $3.5bn by the end of April, produces additional exports worth half that amount annually.

Production for export remains competitive despite poor transport links and an approximate 10 per cent effective revaluation of the forint over the past year largely because labour costs are, according to General Motors of the US, a tenth of west German levels.

GE, the US corporation which became the first big foreign investor when it bought Tungsram in 1989, complains that failure to allow the forint to devalue in line with last year's 35 per cent domestic inflation rate has badly affected its cost structure. But that has not stopped GE basing its worldwide production of compact fluorescent lamps in Hungary or stepping up its research and development activity to take advantage of lower costs.

Much new investment capacity will come on stream this year, as GM begins production of engines, Ford starts producing motor components and new model Swift compact cars start rolling of Suzuki Motor Corporation's new assembly lines in western Hungary.

Initially, however only 30 per cent of Suzuki's output will be local content because of the slowness of local enterprises in adapting to rigorous Japanese quality standards.

EC threat to banana exporters

LATIN American exporters of bananas to the EC could face curbs under the European Commission's latest plans to protect its traditional, mostly Caribbean suppliers, David Gardner reports from Brussels.

Last month, Brussels imposed quotas on so-called "dollar zone" banana exporters, plus a 20 per cent tariff, ahead of next year's single market. Central America, Colombia and Ecuador provided three-fifths of the EC's 3.4m tonnes consumed in 1990.

The assumption was that this would now be consolidated, with an extra 3 per cent-a-year "dollar" quota to accommodate rising consumption. EC suppliers from outlying areas such as France's Martinique and Spain's Canary Islands, and from Caribbean and African producers linked to the EC by the Lomé Convention, would have their higher-cost produce protected.

Brussels' latest view on the quotas (in a document to be sent to interested parties) is more restrictive than expected. "From a Latin American point of view, it's fairly much a disaster," one observer said. Under scenarios listed, "dollar zone" producers would have only 1.4m tonnes (two-thirds of what they supply now) guaranteed. An extra 900,000 tonnes would be licensed out to "dollar zone" and traditional suppliers, as would 3 per cent annual increments thereafter. A decision is not expected before July.

Disk-drive plant goes to Ireland

TWO leading disk-drive makers, Matsushita-Kotobuki (MKE) of Japan and Quantum Corporation of the US, are to open a factory in Ireland as their European market base, Tim Coone reports from Dublin. MKE makes 40MB to 240MB hard disk drives in Japan, while Quantum markets them to personal computer makers. European sales top I£250m (£227m) a year (35 per cent of Quantum's world market). The plant should be on stream by autumn.

UK-led group in deal to run Romanian TV station

A UK-led consortium has won the right to operate one of Romania's two TV channels, representatives of the group, led by Atlantic Television, said after signing the deal yesterday, Virginia Marsh reports from Bucharest. The new station, Channel 2 TV Romania, will be the first national commercial TV channel in the former Soviet bloc.

Mr Robin Edwards, managing director of Atlantic Television, a Canadian-registered company, and a non-executive director of Westcountry Television of the UK, said the station would "set the standard" for other ex-Comecon countries.

The deal gives the new channel, a joint-venture company allocating a 20 per cent stake to Radio Televiziunea of Romania, broadcasting rights for 15 years. Conceived as non-political, it will import half its programmes from the west. Atlantic hopes it will be on air by the end of the year.

Controversial sleeping pill seen as safe at low doses

Sales of Halcion given go-ahead by FDA panel

By Karen Zagor in New York and Paul Abrahams in London

HALCION, the controversial sleeping pill made by Upjohn, has been found by an advisory panel to the US Food and Drug Administration (FDA) to be safe and effective at low doses.

The panel recommended that the world's best-selling sleeping drug remain on the market in the US, in spite of studies showing that it produces higher rates of anxiety and memory impairment in some patients than similar drugs.

The FDA is not obliged to follow the panel's recommendations but is expected to abide by them and allow Halcion to remain on the market.

Upjohn believes a final decision could be made within two to six weeks.

The panel said data did not confirm concerns that Halcion induced a substantially higher rate of side-effects, particularly memory loss and depression. It was these fears that led to the drug being banned in a number of countries, including the UK.

The drug has been banned in Norway, Finland, Bermuda and Argentina. Restrictions have been imposed on dosing levels in France and Spain. A German Health Ministry panel has not yet reported.

In the UK, a final decision on the ban is expected by the start of next week, according to Upjohn.

Although the UK accounted for only a small part of Halcion's sales, the ensuing publicity hurt the drug's sales around the world. These declined by 39 per cent during the first quarter of this year.

Last year Halcion accounted for $237m (£133.8m) of Upjohn's $3.4bn sales. Shares in the company firmed $⅛ to $35¾ at midday yesterday on the New York Stock Exchange. The stock was trading at about $47¾ before Halcion sales were suspended in the UK last September.

In November Upjohn agreed to relabel and repackage Halcion in smaller quantities following discussions with the FDA.

At the FDA panel meeting, the company said it would conduct a study of 10,000 patients in a further attempt to allay fears about the drug's safety.

The study is expected to be completed by January 1994.

Mulroney to pursue tough line on trade

By Nancy Dunne in Washington

CANADIAN Prime Minister Brian Mulroney visits the White House today in a climate marred by bitter trade disputes and concern that the US is drifting deeper into isolationism.

It is just seven years since President Ronald Reagan and Mr Mulroney sang "Irish Eyes are Smiling" together and swore their mutual allegiance to the free market. But clearly the world no longer seems "so bright and gay". Mr Reagan has left centre stage and – if the polls are correct – Mr Mulroney and President George Bush soon could be joining him in political retirement.

Mr Mulroney seems to find Mr Bush no less genial personally than his predecessor, but the political realities dictate a tougher line on trade from Ottawa.

However, the atmosphere will be lightened by a US Commerce Department decision last week to cut its proposed countervailing duty on Canadian softwood lumber from 14.8 per cent to 6.51 per cent.

Mr Derek Burney, Canadian ambassador to the US, said the move would "help lower the temperature," but insisted the ruling was "a tortured attempt to manipulate the facts in order to substantiate a pre-ordained result". The case will head the list of trade grievances, along with skirmishes over duties on Canadian-made Hondas, beer and magnesium.

The Uruguay Round of trade liberalisation talks is also on the agenda.

Mr Mulroney would request "the same kind of flexibility" on agriculture trade talks that the US was demonstrating toward the European Community, Mr Burney said.

There are two new problems to discuss. The White House last week requested a dispute settlement panel under the Free Trade Agreement to investigate Canada's wheat pricing methods. Mr Mulroney may now request a panel to examine US agriculture export subsidies.

The Canadian prime minister is also expected to emphasise the necessity of US leadership on aid to the former Soviet Union, in advance of Russian President Boris Yeltsin's visit to Canada and the US in June.

Canadian officials stress that Ottawa has contributed more than $2bn in aid to the region – about 40 per cent of the US contribution – when the US economy is 10 times larger.

The looming Group of Seven summit in Bonn is on the agenda, along with talks on the North America Free Trade Agreement and the Earth Summit.

US banks face probe into racial lending

By Alan Friedman in New York

FEDERAL banking regulators are investigating the lending records of 266 US banks suspected of having discriminated against customers from minority groups.

The Office of the Comptroller of the Currency (OCC), which regulates a number of federally chartered banks, said yesterday the banks had been asked to reply to Washington by the end of the week.

"We have been investigating for several months and a number of banks have received letters saying we are looking into racial disparities in lending," an OCC official said.

The OCC said the mortgage lending records were being scrutinised after officials found a disproportionate rejection rate by some banks of mortgage applications from minority groups such as black and Hispanic Americans.

The practice is known colloquially as "redlining," a term based on the notion of bankers drawing a red line on a map around neighbourhoods they do not wish to lend to.

Other federal bank regulators also examining the issue include the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC).

If the OCC decides that a bank is guilty of discrimination it may employ a series of sanctions, ranging from administrative or civil penalties to limiting the institution's ability to expand its operations or open new branches.

● The Bank of Boston, one of the leading banks operating in the depressed New England economy, has claimed it will make $3bn (£1.6bn) of new business loans over the next five years in an effort to stimulate the region's economy.

Banking analysts are sceptical, however, that the bank can fulfil such a forecast. The bank described the claim as a projection of loan demand, rather than an actual commitment to make the loans.

Chevron finalises Kazakh oil exploration agreement

CHEVRON Corporation, the fourth largest US oil company, has finalised an oil exploitation agreement with the former Soviet republic of Kazakhstan worth $1.5bn (£840m) over the next three years, writes Neil Buckley.

It is the largest venture agreed between a western oil company and a former Soviet republic. Over the 40-year life of the project the deal could be worth as much as $20bn.

Mr Nursultan Nazarbayev, Kazakh president, signed the deal with Mr Kenneth Derr, Chevron chairman, in Washington this week, finalising details of a protocol signed 10 days earlier. The speed with which the protocol was finalised will be an encouraging sign for other companies involved in talks with former Soviet states.

Chevron will acquire a 50 per cent interest in a joint venture to develop the Tengiz and Korolev fields on the north-eastern Caspian Sea coast.

Work will begin in January next year on developing the two fields, whose reserves are estimated at about 25bn barrels, of which between 6bn and 9bn barrels may eventually be recoverable.

Plebiscite may break logjam over second term for Menem

By John Barham in Buenos Aires

ARGENTINA'S government has threatened to hold a plebiscite later this year to force Congress to reform the constitution and allow President Carlos Menem to run for re-election in 1995.

The constitution forbids presidents from holding consecutive terms.

However, the opposition Radical party is opposed to Mr Menem's re-election when his present six-year term ends. The conservative UCD party, the government's ostensible ally, is split over the issue.

Senator Eduardo Menem, the president's brother and head of the Senate, said: "Since it appears that some political forces are against the reform, I think it would be correct to consult the people directly." A plebiscite would not have force of law, but the government is confident of wining a 70 per cent majority, which would intimidate Congress into supporting reform.

Constitutional amendment has become Argentina's leading political issue. Mr Eduardo Bauzá, secretary general of the presidency, warned that "undoubtedly we are heading towards a plebiscite" unless the opposition co-operates by approving reform. A two-thirds majority of Congress is needed to convoke a constituent assembly.

Carlos Menem: denies involvement in reform campaign

Mr Menem's fixation with re-election as he approaches the middle of his term is creating political uncertainty. Analysts warn that a constituent assembly could introduce social clauses that hinder economic reform.

The president has said constitutional reform will not deflect his commitment to free-market policies. But his claims that he is not directly involved in a reform campaign are not widely believed.

Re-election has obsessed Argentina's civilian presidents. The only leader to win re-election was Juan Perón in 1953, but the amendment was scrapped after the army toppled him in 1955.

Mr Raúl Alfonsín, Mr Menem's predecessor, also tried to change the constitution but the Peronists blocked his efforts.

Privatisation pioneer goes one further

Mexico, writes **Damian Fraser**, is handing over the provision of basic public services

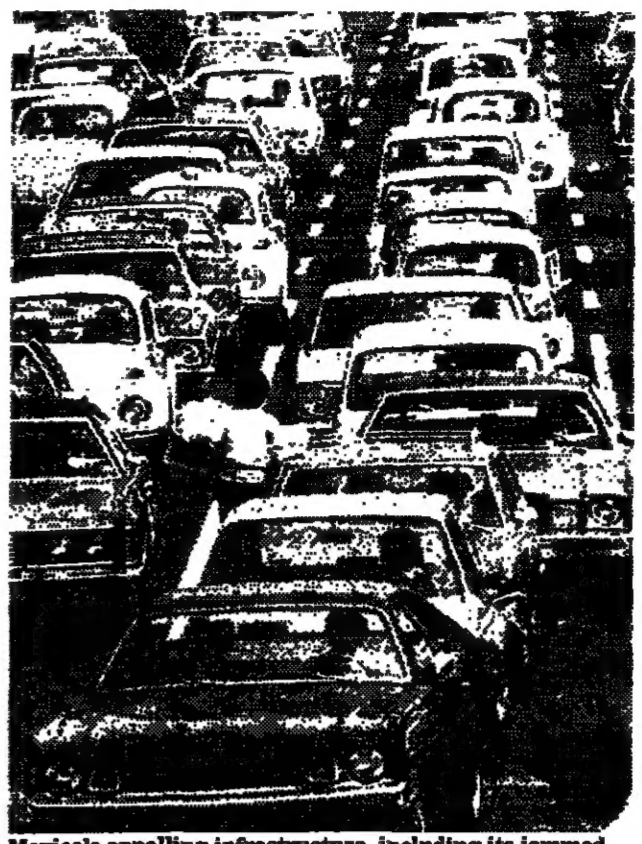
VISIT Mexico's recently re-opened National Auditorium, and a change in the way Mexico's government does business becomes clear. Once a loss-making white elephant with cheap subsidised tickets, the Auditorium now charges up to $100 a seat, and makes a handsome profit.

Once an employer of 1,200 federal workers, it now has just one. All other work, from security to securing stars – including recently Placido Domingo, Paul Simon and next year's Miss Universe – is contracted to the private sector.

The Mexican government, well-known for the privatisations of state-owned industries, has taken the concept a step further by handing over the provision and financing of basic public services to the private sector. Telephones, motorways, water treatment, electricity generation, railways and ports are being financed in part or fully by private capital to an extent not seen even in most developed countries. Subsidies are being scrapped.

The stimulus to the privatisation of public goods comes from the appalling state of Mexico's infrastructure, cited by most businessmen as the most critical constraint on economic growth, and the enormous pressures on the government budget.

A recent report from the business organisation Canacintra concluded with what most Mexicans did not need telling: the motorway network was insufficient, with some sections too narrow and badly put together; trains were slow and in bad condition; ports were unreliable; the telephone service was inadequate; the postal service was slow and inefficient . . . and so on.



Mexico's appalling infrastructure, including its jammed motorways, has proved a big incentive to privatisation

The government's first target was the telephone system, privatised in December 1990. Telmex, as the telephone monopoly is known, has to invest under government regulation about $14bn in five years and increase lines in service by 12 per cent a year. Mr Pedro Aspe, Mexico's finance minister, likes to say that the government privatised investment in Telmex which would not have been forthcoming had the company remained in public hands.

The government handed over at about the same time the construction of all four-lane toll roads to the private sector, ahead of the US, which allowed private partnership for the first time last December. The Mexican government has already authorised concessions for 3,521km of motorway for investments of $5bn, of which 1,149km are in operation. Another 2,372km of concessions are forthcoming.

The government usually finances about 10 to 15 per cent of a motorway project, banks or capital markets another 50 per cent, and private investors or construction companies the rest. Brokerages and banks recently have been issuing bonds in Mexico guaranteed by future toll payments. The government promises to extend concessions to private investors in a motorway if projected revenue targets are not met, substantially reducing the risk of the bonds.

Soon these bonds will be offered internationally. The first to be submitted probably will be backed by tolls on motorways that already have been built, in an attempt to test the market. However, foreigners at a recent conference on Mexico's motorway programme appeared cautious and wary about exchange-rate risk and the possibility that future governments might renege on commitments made by the free-marketeers now in control.

Other risks have become apparent. Toll prices, because of the high cost of capital, are so high that demand in some cases has not met expectations, causing losses for creditors. Construction costs have been higher than projected in the Mexico City-Acapulco motorway, to the discomfort of the lead bank, Banco Serfin.

Other government departments have followed the example of the Ministry of Communications and Transport. Mexico's Commission of Federal Electricity (CFE) has signed projects worth $2.5bn with consortiums including France's Ahlstrom, Spain's Mecanica and Mexico's Bufete International to build and then lease back generators. The CFE will assign another $2.2bn-worth of plants to private contractors including a consortium lead by General Electric and Bechtel, according to a report by El Financiero International.

These projects may prove big business for Mexico's brokerages who are working on projects to attract private capital aside from that provided by foreign construction companies. Mr Javier Magana of Probursa is working on a plan to emit electricity bonds internationally and guaranteed by CFE's promise of payments for the use of a generator.

Probursa is also proposing a similar scheme for water treatment plants, where capital is raised through water bonds that are guaranteed by a stream of payments which local government agrees to make for use of the plants. A series of French and British water companies have trooped through the offices of the National Water Commission in the hope of obtaining a slice of a billion-dollar business.

Such projects, while hardly new in the US, "would a year and a half ago been considered absurd", says Mr Magana. They are feasible because interest rates have fallen to below 15 per cent and confidence in the peso is strong, while the consensus in and out of Mexico is that infrastructure spending will boom over the next decade.

However, foreigners may still hesitate to invest in a country where price controls on basic necessities such as electricity and water have been a way of life for more than half a century. The other constraint is Mexico's constitution, which still reserves ownership and distribution of many public services to the state. While the government has found ways round the law, greater legal clarity would help.

Rising output fuels hopes of UK recovery

By Emma Tucker, Economics Staff

SPECULATION that the UK economy is on the verge of recovery was fuelled yesterday by news that manufacturing output rose in the first quarter of the year.

The increase of 0.3 per cent in the three months to April was the first three monthly rise in output since the recession began. It followed six successive quarterly declines.

Although economists were optimistic about the figures from the Central Statistical Office, they said it was too early to say the recession was over.

In spite of the quarterly rise, and two successive monthly rises, manufacturing output remained 2 per cent below levels of a year ago and 7.5 per cent below the high point of the second quarter of 1990.

On a monthly basis, manufacturing output rose by 0.2 per cent in March after a 1.1 per cent increase in February.

Overall industrial output – manufacturing plus energy – fell by one per cent in the first three months of the year compared with the previous three month period. This was mainly due to a big drop in energy output which fell by 4.3 per cent in the first quarter.

The Treasury said economic growth would become firmly established this year. "Today's economic figures suggest the fall in manufacturing output may have ended and growth will become firmly established during 1992," it said. But Mr Gordon Brown, opposition Labour party spokesman said short-term economic prospects remained weak.

Four of the seven components within manufacturing showed an upturn in the first quarter. Output of the "other manufacturing" sector, which covers paper, printing and publishing, rose by 1.4 per cent compared with the previous quarter and output of metals rose by 1.1 per cent.

There was a small decline in engineering output, although on a monthly basis, output in this sector has risen for two successive months. Within engineering, car production rose by 4 per cent compared with the previous quarter, but output of other transport equipment - including shipbuilding and aerospace - fell by 3.1 per cent.

Chemicals was the only sector to show a big improvement in output compared with a year ago. Output grew by 5.3 per cent in the three months to April compared with the same period a year ago. The CSO said this was almost entirely attributable to the strong performance of the pharmaceuticals industry.

Output of the consumer goods industries rose by 1.3 per cent in the first quarter compared with the previous three months with the highest rise within the sector coming from cars.

The public sector borrowing requirement for April was £3.6bn, including privatisation proceeds of £600m. This was the biggest deficit for April since 1987.

Although the figure was slightly lower than expected, economists warned that Britain was still heading for a record deficit in fiscal 1992-93. Most expect the PSBR in the new financial year – which started in April – to reach £30bn.

Takeovers and mergers valued at over £2bn

By Bethan Hulton

ACQUISITIONS and mergers activity in the UK remained steady in the first quarter of 1992, but the value of transactions fell.

There were 124 transactions to an estimated value of £2.2bn in the first quarter of 1992, according to figures released yesterday by the central statistical office. The figures do not include cross-border acquisitions.

The total value of initial payments on acquisitions of UK industrial and commercial companies was down £2.1bn on the last quarter of 1991, when there were 130 transactions, and down £11.1bn from the 1989 peak.

Independent companies were involved in 72 of the sales, and subsidiaries in 52. There were no mergers.

There were 30 transactions valued at over £10m, and 49 valued at less than £1m. The largest transactions were the acquisition of Steetley by Redland, valued at £624m, the sale of IEP (automotive) to Inchcape Overseas for £363m, and Bowater's purchase of DRG for £201m.

Europe urged to speed pace of energy liberalisation

By Neil Buckley

URGENT action is required to quicken the pace of energy liberalisation throughout Europe, Mr Tim Eggar, energy minister said yesterday.

Speaking in London at a conference organised by the Confederation of British Industry and the Confederation of Norwegian Business and Industry, Mr Eggar said he would be pressing for the quick introduction of a free energy market when he meets EC energy ministers in Brussels tomorrow.

His comments suggested energy liberalisation may be a theme when the UK takes over the presidency of the European Community in July. The UK currently leads the way in the deregulation of electricity and gas industries, but could face strong opposition in pushing for greater liberalisation from countries such as France and the Netherlands.

Mr Eggar said industry and 350m consumers across Europe would have "everything to gain" from cheaper gas and electricity, with only a handful of vested interests likely to be losers. He suggested there was a "striking contradiction at the heart of Europe.

"It is quite extraordinary that we have been spending so much time making sure that goods can cross frontiers but we apparently find it impossible for gas and electricity to flow across frontiers."

He said that significant disparities still existed between electricity and gas prices in different European countries. He also warned that European industry might find it impossible to be competitive with the rest of the world unless energy prices fell as they were doing in the liberalised markets of the US and Japan.

Mr Eggar said that arguments that electricity and gas were natural monopolies, and that only monopolies had sufficient economic security to undertake the large investment programmes required by energy projects, had been proved wrong by the liberalised electricity market in the UK, and the gas market in the US.

He also countered claims by opponents of energy liberalisation that it would require a "huge centralised regulatory bureaucracy".

He said that regulation could be left to member countries operating within an agreed framework. In the UK, the gas regulator Ofgas operated effectively with a staff of around 30 people.

Tim Eggar: consumers have "everthing to gain"

Names seek legal review over losses at Lloyd's

By Richard Lapper

LOSS-MAKING Lloyd's Names yesterday launched two moves to prevent the authorities at the insurance market drawing on their deposits to meet losses.

In the High Court, Mr Justice Potts granted leave for a judicial review to six Names – individuals whose assets back underwriting at the market. The Names are connected with the Gooda Walker Action Group, which represents over 2,100 Names.

Judicial reviews are actions against public or semi-public bodies alleging that they have failed to observe duties usually enshrined in legislation.

In a separate action, Withers, solicitors acting on behalf of the Distressed Names Spiral Action Group, yesterday issued ten separate writs against the Gooda Walker, Feltrim, Rose Thomson Young and Devonshire agencies.

Both actions are aiming to obtain injunctions to prevent the Lloyd's insurance market from drawing on the deposits which all Names must leave with their agents in order to meet insurance losses.

Ashdown urges tough stance at Rio summit

By Ralph Atkins

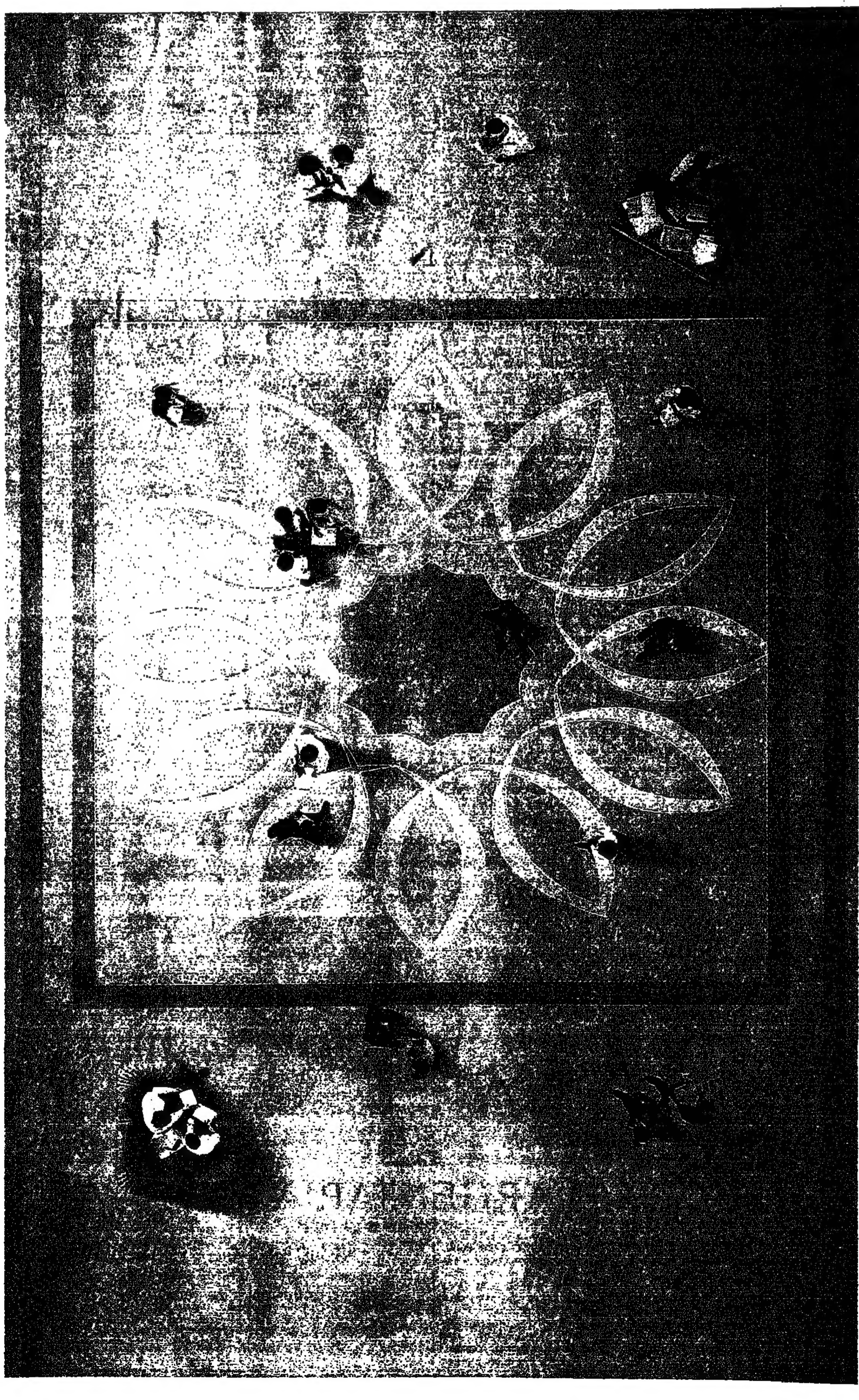
THE centrist Liberal Democrats yesterday called on Mr John Major to apply "all his international negotiating skills to the full" at next month's Earth summit in Rio de Janeiro.

Mr Paddy Ashdown, the party leader, said preparatory negotiations for the summit had gone in the wrong direction, having, "watered down the original texts and exposed divisions."

Mr Ashdown proposed the stabilisation of carbon dioxide emissions at 1990 levels by 1995, increased resources for family planning in developing countries and "Red Cross" style immunity for those engaged in environmental clean up operations at times of conflict.

"The UK is often a laggard in European Community discussions and our partners have concluded that we are more concerned to appease the US than to achieve a co-ordinated European position," said Mr Ashdown. "So now Mr Major must demonstrate that his strategy can deliver the goods."

The party also launched a cross-party appeal for a Commons debate on the summit.



MPs claim success in Maxwell campaign

By Alison Smith and Norma Cohen

MPs campaigning on behalf of pensioners facing hardship after their pension funds were raided by Robert Maxwell, the late publisher, yesterday claimed they had forced the government to take a more active approach to the affair.

Mr Richard Page and Mr Frank Field, representing an all-party group of MPs supporting the Maxwell pensioners, emerged from a meeting with Mr Peter Lilley, the social security secretary, to urge early publication of the report by the Securities and Investment Board (SIB) which would enable further decisions to be taken about the future of the funds.

The two MPs also welcomed undertakings by Mr Lilley to pass on to the Bank of England concerns that the banks were not making enough effort to identify Maxwell assets.

The meeting coincided with a press conference at which a Maxwell pensioners' group claimed that six thousand Maxwell company pensioners stand to lose three-quarters of their monthly pension payments by September unless the government acts.

Mr Kenneth Trench, chairman of the Maxwell Pensioners Action Group, said that government had an obligation to help pensioners because of the maladministration of government departments in their oversight of Mr Robert Maxwell's activities.

By June, 5,000 Maxwell company pensioners will lose half their monthly pension payments and 240 members of one Leeds-based scheme are getting no payments at all.

Vitamin supplement for horses may be toxic

By Catherine Milton

A DRUG company yesterday confirmed it was withdrawing its vitamin supplement products for competition horses because they may be poisonous.

Three horses are said to have died and several are seriously ill, according to Colburn-Dawes Nutrition, a subsidiary of the Swiss pharmaceuticals group Roche. Those known to be affected are in Suffolk and Hampshire.

The horses are alleged to have died after consuming excessive amounts of the element selenium, one of the ingredients in the vitamin supplements given in feed.

The products are used by horse studs around the world. Products have been exported to Greece, Malaysia, the United Arab Emirates, Iceland, the Philippines and Taiwan.

The company said it was withdrawing all horse feed supplements made since September 1991 and held by distributors and their customers in the UK. Overseas customers were being warned but the company fears most exports will have been used already.

Tests by Ministry of Agriculture scientists have confirmed that the products contain more selenium than they should. A spokesman from Medi Equus, a Colburn-Dawes Nutrition distributor, said the tests revealed "huge variations in the level of selenium and other potentially toxic minerals".

Colburn-Dawes Nutrition is conducting its own tests to find out exactly which batches of the supplement are affected. It is investigating one of its three factories at Atherstone in Warwickshire.

Unions react angrily to BBC pay offer of 3.7%

THE BBC has angered unions by offering more than 25,000 staff an annual pay rise below the rate of inflation. Its offer for the year from the beginning of August is 3.7 per cent with a guarantee that no one will receive a rise worth less than £300, writes Raymond Snoddy.

The deal would cost £21.5m a year on a BBC pay bill of £590m. The offer comes on the eve of a BBC governors and top management conference to consider the corporation's future.

Bectu, the main broadcasting union, representing about 14,000 BBC staff, asked for 3 percentage points more than inflation – at present 4.3 per cent – and a minimum salary of £7,500.

Mr Tony Lennon, president of Bectu, said he did not think his members should have to "bail out the BBC" with what is effectively a pay cut. In the past, the BBC has said it wants to increase efficiency to plough more money into programmes.

Mr Lennon said staff were not benefiting from the cost savings and redundancies and in particular the deal eroded the 5 per cent given last year for giving up some overtime and extra duty pay.

UK rules out action in 'friendly fire' case

By Robert Rice and Ralph Atkins

Barbara Mills: to examine 'friendly fire' documents

THE GOVERNMENT signalled yesterday that it would take no action against US pilots involved in the deaths of nine UK soldiers killed by "friendly fire" in the Gulf war.

Mr John Major indicated to MPs that he did not believe the incident justified a protest to Washington over its role in protecting of the pilots.

"I hope we won't lose sight of the fact that those were American pilots risking their lives alongside our troops in a battle against a common enemy and to liberate Kuwait," he said.

Speaking after an Oxford inquest ruled on Monday that the nine were "unlawfully killed", the prime minister faced pressure by Mr Neil Kinnock, the opposition Labour leader, to use his authority to ensure the victims' families had the full truth.

Mr Malcolm Rifkind, defence secretary, later admitted that in the immediate aftermath of the Gulf war "there was some confusion and uncertainty about what exactly happened".

The US marine corps had not sent answers to points raised in the Ministry of Defence's inquiry until July 10, he said.

Ministry of Defence officials, however, said that all available information was now in the hands of the victims' families.

Mrs Barbara Mills QC, Director of Public Prosecutions (DPP), has asked to see all the relevant documents held by the Oxford coroner and the MoD on the incident.

The DPP's office said yesterday that Mrs Mills would consider the papers in detail to see whether there was sufficient evidence to bring criminal charges against the two US pilots allegedly responsible.

But her office reiterated that there was no power to prosecute a foreign national in England and Wales for any offence of murder or manslaughter allegedly committed abroad.

Under the 1861 Offences Against the Person Act, British subjects could be prosecuted in England and Wales for murder or manslaughter committed outside the UK. But that was a specific statutory exception to the general principle of jurisdiction and did not extend to non-British subjects, a spokesman said.

Mr Michael Meyer, head of legal services at the British Red Cross, said yesterday there were no precedents in international humanitarian law for dealing with "friendly fire" incidents.

The US Congress has however agreed to pass a bill compensating US soldiers under which their families would receive $100,000 whether they were killed in war or not and it was possible that the same sum could be paid to the British families, he added.

Shortage of IT skills could lead to exodus

By Michiyo Nakamoto

THE UK faces a shortage of information technology skills which could lead to an exodus of computer software and service companies, according to leading information technology companies in the UK.

"Companies can now base themselves wherever in the world the relevant IT skills are, and use international networks to transmit data from there," said Mr Paul Aspin, southern region industrial business manager for IBM.

Mr Aspin, who is also a board director of West London Training and Enterprise Council, warned that unless the relevant skills are developed in the UK, the IT industry will move out to continental Europe.

UK companies lags behind the best in IT training and investment per person in the UK was just half that in Japan, according to Mr Peter Bonfield, chairman and chief executive of ICL, the computer group. The lack of training by companies has meant that people who have the skills are poached by companies at increasingly higher pay levels.

No withdrawal: Lt Gen Wilsey (right) meets paratroopers during a visit to Coalisland yesterday

Dublin demands withdrawal of paratroopers

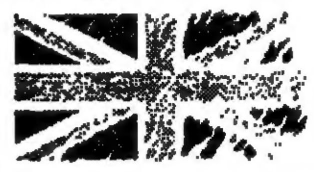
MR DAVID Andrews, Irish foreign affairs minister, has demanded the withdrawal of British paratroopers from duty in Northern Ireland following several days of unrest in Coalisland, the fiercely republican Ulster community.

Lieutenant General Sir John Wilsey, the commanding officer of British forces in the province, yesterday refused to comment on the Dublin government's demand during a visit to the County Tyrone town.

The Parachute Regiment, however, has been kept off the town's streets after protests over the soldiers' behaviour in opening fire on a crowd earlier this week. Three men were shot in the knees and are recovering in hospital.

Two soldiers were also hurt. One is being treated for a suspected collapsed lung. Lt Gen Wilsey, meanwhile, visited troops outside the town as metal detectors were used to find a machinegun stolen during violent clashes between soldiers and Catholic youths.

Britain in brief



Jobless levels suffer biggest rise since '82

The number of people unemployed for more than one year rose by 94,000 in the quarter to April to reach 841,000, the highest since October 1988. The 286,000 increase since April last year is the biggest yearly rise since 1982.

Mrs Gillian Shephard, employment secretary, regretted the increase but pointed out that long-term unemployment was still only two-thirds the level it was five years ago. She also said that the number of very-long-term unemployed, people unemployed for more than five years, was at the lowest level since January 1985.

All regions suffered an increase in long-term unemployment with the largest percentage increases in south Wales, the south-east – including London – and East Anglia.

Militant loses union influence

Militant Tendency, the Trotskyist splinter group disowned by the Labour party, has lost its strongest chance of winning significant influence over a UK trade union following the election of moderates to all three top posts at the Civil and Public Services Association (CPSA).

The election of Mr Barry Reamsbottom as general secretary and other moderates to posts including deputy general secretary, treasurer and president is likely to be welcomed by the government. During the past 10 years Militant has had a stronger influence on the CPSA, which represents most government officials, than any other union and won control of its executive in 1987-8. This year, Mr John Macreadie, its candidate for general secretary and the union's deputy general secretary, was thought to have a good chance against Mr Reamsbottom.

Under the leadership of Mr Reamsbottom and a moderate-dominated executive, the CPSA is far less likely to clash with the government or organise industrial action than it would under Militant.

Barclays staff get pay rise

More than 2,500 information technology staff at Barclays bank are to receive pay rises of between 3 and 4 per cent. Managers will get a maximum of 3.1 per cent.

Jaguar plans new engine

Jaguar, the UK luxury carmaker, has developed a prototype two-stroke engine, which could enter production in the next decade.

The surprise disclosure of the project represents a pioneering step among European luxury carmakers, although several of the world's leading volume carmakers are already working on the development of two-stroke engines for small cars.

Jaguar, a subsidiary of Ford of the US, said the development of the compact and lightweight V-6 engine was the result of a four-and-a-half year research programme.

Ferry group to relaunch route

The Folkestone-Boulogne cross-Channel ferry route, closed by Sealink Stena Line at the end of last year, is to be re-opened to freight traffic in mid-June by a newly-formed shipping company called Opale Ferries.

The company, formed by a group of mainly French investors led by the Boulogne Chamber of Commerce, has chartered a Canadian freight ferry with capacity for 50 lorries and drivers.

Opale Ferries believes there is enough demand among long-established users of Boulogne to justify the service in spite of looming competition from the Channel tunnel.

Advertisers seek EC deregulation

The Advertising Association has stepped up its lobbying of the government, MPs and MEPs for further and wider deregulation within the EC.

In a 14-point document, The Spirit of '92, the association urges the government to promote "the construction of a Europe without national restraints on trade or services, and to reinforce progress towards the acceptance of freedom in communications, and truth in advertising."

The document includes calls for reconsideration of national restrictions on advertising and continued resistance to a proposed EC-wide ban on tobacco advertising.

UCW opposes postal plans

Post Office plans to improve customer service through a "total quality" programme has encountered opposition from the Union of Communication Workers, the main postal union.

The UCW voted at its annual conference in Bournemouth to oppose increased job specialisation and team working, and to ballot on strike action over the latter if necessary.

Royal Mail, the letters arm of the Post Office, has been trying for more than two years to introduce into sorting and delivery operations a system of self-regulating teams headed by team leaders as part of an effort to introduce "total quality" principles, focusing on excellence of service and customers' needs.

Step forward on regulation

The creation of a new self-regulatory organisation to oversee all retail investment business has moved a further step forward.

The Securities and Investments Board, which is sponsoring the planned organisation, has announced four sub-committees appointed to examine how it would work.

David Waller tells the tale of a family fortune, management consultants and a punk princess

When a Prince means business

Princess Gloria and Prince Johannes von Thurn und Taxis: brought in consultants to manage family assets totalling $1.3bn, excluding seven castles, pictures, collections and jewellery

Helge Petersen, a former partner in the McKinsey consultancy group, received an unusual phone call late in 1986.

Egon Zehnder, a prominent Swiss headhunter, rang with a unique proposition: would he like to manage the business affairs of the princely house of Thurn und Taxis, one of the oldest and wealthiest families in Europe?

Petersen took the job – but it did not turn out to be as idyllic as he first imagined. He and colleagues he recruited left their jobs under a cloud in 1990 and subsequently became embroiled in litigation with their former employer. It was only last month that this litigation was settled.

Petersen's appointment came about because the head of the family, the late Prince Johannis von Thurn und Taxis, was concerned that the family businesses were not earning enough to support his extravagant life-style.

The family's fortune – with assets of about $1.3bn excluding castles, pictures, collections and jewellery – reflected the entrepreneurial talents of Prince Johannis' distant forebears.

In 1490, they established a postal system for central Europe and ran it successfully for a few centuries thereafter. During the 19th century, it was privatised and the proceeds skilfully invested in industry and agriculture.

Unlike the fortunes of many noble German families, the T und T empire fared well in the 20th century too. It survived two world wars, the Nazi Reich and two periods of great inflation.

This was, however, due more to luck than the entrepreneurial skills of the princes, who tended to be playboys rather than businessmen. Commercial affairs were left in the hands of administrators recruited from the Bavarian civil service.

Acutely conscious that his outgoings exceeded his income, Prince Johannis at last decided it was time to bring professional management skills to bear on an empire which spanned 69,000 acres of forest, as well as agriculture, banking, brewing, industry and international property. Hence Petersen was brought in and given leave to recruit a team of managers.

For three glorious years, Petersen and his new recruits – principally Eberhard Crain, a former colleague at McKinsey, and Rolf Levedag from the Deutsche Bank – lived at the Thurn und Taxis seat of Schloss St Emmeram at Regensburg in Bavaria, chief of the family's seven castles.

During the week, they had the fun of managing a large business from congenial surroundings. At the weekends, they were invited to boar-hunts by their employer, where they could rub shoulders with the likes of Donald Trump, the former real-estate giant, Prince, the pop-star, Günter Grass, Germany's leading author, Franz-Joseph Strauss, Germany's former chancellor, not to mention the Prince and his glamorous relatives.

Quite apart from the social attractions, the job was extremely stimulating. "It was," recollected Eberhard Crain earlier this year, long after the idyll had come to an end, "a position that everyone would dream of".

Petersen agreed: "It was intellectually very interesting. We had a first-rate management group; to start off with we had an excellent relationship with the Prince and we had a tremendous amount of entrepreneurial freedom. You don't get all this in many jobs."

The managers set up a corporate-style structure for the group. They established a holding company, of which they were the directors and the Prince was the sole shareholder.

Their first task was to assess the value of the Prince's assets: he had a vague idea they were worth about $3bn and was disappointed to find that they were less than half of that.

Then, with the help of Andersen Consulting, they installed a management information system. They divided the businesses into five divisions: agriculture, forestry, industry, brewing and financial services. These were further subdivided into some 60 profit centres.

Agriculture and forestry – the bulk of the empire – produced a yield on assets of 1 per cent or less per year. The managers' task was to work the rest of the assets as hard as possible.

They embarked on ambitious plans to franchise the Thurn und Taxis name in the financial services areas and:

- bought property in north America and Germany;
- rationalised the largest industrial company in the portfolio – Doduco, a loss-making electronics concern;
- sold off $145m of farm land.

The net result was that the empire turned back into the black, making profits of $7.5m and $6.4m in 1988 and 1989 respectively.

The strategy was based on the assumption that the Prince, 59 years old when he recruited Petersen in 1986, would live for at least another 10 years. However he grew ill and fell increasingly under the influence of his wife, Princess Gloria.

The "punk princess" was well known in the German popular press for the extravagance of her life-style and her imaginative haircuts. The Prince had married her in 1980 when she was just 20. It was only in the late 1980s that she started to develop an interest in the business rather than party-going.

Relations between the managers and the Prince grew frosty early in 1990 after an article appeared in a German magazine accusing Petersen and his team of gross mismanagement and manoeuvring themselves to take control of the fortune when the Prince died.

Formally, the Prince stood by his employees, but the old trust and confidence was gone and the managers' freedom to act was henceforth strictly circumscribed. By the middle of the year, Petersen and Crain had left of their own accord and shortly afterwards Levedag was fired.

For the managers, the saga did not end with their departure from the Schloss, nor even with the Prince's death in December 1990. The Princess attacked them in numerous press articles, one of which in September last year alleged that they had systematically manipulated the Prince's accounts to pay themselves big bonuses.

Petersen and his former colleagues hit back, suing both Gloria and a number of publications, claiming a systematic attempt to destroy their professional reputations. The Princess counterattacked by filing criminal charges against the managers.

Late last month, the Princess quietly backed down: a statement issued in Frankfurt said that the House of Thurn und Taxis had dropped its allegations against the former managers.

Both sides abandoned the lawsuits launched at each other; Levedag, who was sacked outright, obtained compensation and all the managers successfully won payment of unpaid bonuses due under their contracts.

This attempt to subject a large family fortune to professional management discipline has not been good either for the fortune or the managers.

While Petersen landed on his feet, taking up a post last year as managing director of the Wasserstein Perella investment bank in Germany, Crain has only recently found a new job with a French investment group in Frankfurt. Levedag is believed to be on the brink of taking up a new post.

Meanwhile a distinctly press-shy Princess Gloria presides over a family fortune which is believed to be shrinking at much the same rate as it was before the ill-fated experiment with professional management.

Making a strong case for getting physical

HEALTH CHECK

When I ask managers about the importance of exercise, most acknowledge that physical activity can be beneficial, but the vast majority – more than three out of four – view it as optional. Even managers who are committed to health often have a hazy understanding of the basics of fitness.

Whenever a crunch comes at work and the schedule becomes too tight, exercise is the the first activity to go. In fact, physical activity is even more essential to your well-being than brushing your teeth. An extra drink or two, a cigar or an extra few kilograms can all be forgiven. But the body craves movement and will be unforgiving when it does not get enough.

The benefits of exercise are many. It increases bone density, reduces body fat by increasing the use of fat stores for energy, and increases the heart size, making it a stronger and more efficient pump. It raises the oxygen supply to the heart by developing more capillaries and increases the number of red blood cells which meet the higher demands of the body during exercise.

Exercise reduces blood pressure by increasing the blood flow through muscles and decreases the respiratory rate and the resting heart rate. It increases the lung volumes, muscle strength and endurance. Above all it improves the ability to deal with the stress of business life.

Your road back to physical (and mental) fitness should proceed according to a few simple rules.

- Enjoy the exercise you are doing. The obvious moral pleasure is not enough to keep you at it.
- Exercise frequently. That means about three times a week.
- Exercise for a short, sustained period of, say, 30 minutes per session.
- Exercise at the right intensity. Your training heart rate (THR) may be a useful measure. To calculate it, subtract your age from 220, and multiply this figure by 75 per cent. For example if you are 40, and fairly sedentary your THR will be 135: (220-40) x 75 per cent.

Next, choose an activity you really enjoy – walking, gardening, rowing, swimming – and do it three times a week for 30 minutes at 135 heartbeats a minute.

Most people lead an active life when they are young, but as the demands of business grow, they may find that the only exercise they get is an hour or two of golf or tennis at the weekend – and often not even that. The popularity of health and fitness clubs is playing an increasingly important part in getting sedentary people "back on track".

If used properly, a good fitness club can help you get fit. But beware: many managers have the membership card of a club in their wallets as their passport to fitness, only to find constant excuses for not going.

Dr Michael McGannon

The author is the medical director of the Insead Business Health course.

INSIDE WHITEHALL

Yesterday the government cut secrecy at the heart of Whitehall, revealing the membership of cabinet committees, whose very existence was previously not even acknowledged. The cloak is being removed from how decisions are made and who makes them

A society now not so secret

Opening the door: William Waldegrave, chancellor of the Duchy of Lancaster, with Sir Robin Butler, cabinet secretary, yesterday

Tony Andrews

By Philip Stephens, Political Editor

LIGHT was was shed on some of the darker recesses of Whitehall secrecy yesterday, but Mr John Major's latest exercise in open government had an air of studied understatement about it. Sir Robin Butler, secretary to the cabinet and head of the Civil Service, who lifted a corner of the veil of secrecy surrounding Whitehall, is not a man who is given to grand gestures.

The exercise, launched by Mr William Waldegrave in his capacity as chancellor of the Duchy of Lancaster, was designed to illuminate the instinctively secretive Whitehall establishment that Sir Robin runs for his political masters. It was a partial success. The publication of details of the cabinet committees at the heart of government – and of the detailed instructions to ministers on how to operate the machinery – provided a valuable insight into the way Britain is run. Yet, as Sir Robin was obliged to acknowledge, the picture remains far from complete. For those unaccustomed to the intricacies of Whitehall decision-making, the first message of the documents is that very little of the business of government is conducted at full meetings of the cabinet.

The weekly sessions on Thursdays rarely last more than 90 minutes. With occasional exceptions, ministers report on their activities or float ideas rather than become entangled with the minutiae of policy-making. Most decisions are instead taken by much smaller groups of ministers – sometimes within the framework of the cabinet committee system published yesterday, and just as often in still smaller ad hoc groupings. They provide the infrastructure to support the all-important doctrine of collective responsibility: the unbreakable rule that once a decision has been taken it must be publicly supported by all ministers, whatever their private views. It was the official committee structure that Mr Waldegrave and Sir Robin unveiled – the 16 standing committees and 10 subcommittees that have authority to take decisions on behalf of the cabinet.

The four most important – on home, foreign, domestic and legislative affairs – were officially acknowledged by Mrs Thatcher. While the existence of the others has long been an open secret, technically their activities have remained secret.

Their membership confirms what has long been known about the Whitehall power structure: for example, that the chancellor or chief secretary, and frequently both, have places reserved on virtually every committee in their roles as guardians of the public purse. The prime minister heads nine of the main groups.

Those interested in personal power plays will notice that Mr Michael Heseltine is well represented in his capacity as president of the board of trade. He has secured also Mr Major's agreement to an upgraded ministerial committee dealing with industrial issues. The prime minister has curbed Mr Heseltine's ambitions, though, by giving the group a neutral chairman in the person of Lord Wakeham and by including Mr Norman Lamont as its next most senior member.

Lord Wakeham, the lord privy seal, lives up to his reputation as chief political fixer with the chairmanship of several committees on which departmental rivalries run deep. Mr Waldegrave's principal role as minister for the Citizen's Charter has won him a place on all the important domestic committees.

So in theory, the interested observer should be able to trace the main decisions of government through the cabinet machinery. That machinery in turn should guarantee each member ample scope to ensure that his or her voice is heard before important decisions are reached. Unfortunately the reality is not quite as simple. Much of the most sensitive business of government is done not in the cabinet committee system but by smaller ad hoc groups with interests in particular policy issues.

Sometimes those are established alongside the standing committees, gaining the title "Misc" or "Gen". On other occasions, such groupings can exist outside any formal structure, limiting the capacity of most members of the cabinet to influence important decisions.

In her second and third terms, Mrs Margaret Thatcher came to rely almost exclusively on "Misc" committees and ad hoc gatherings to buttress her authority.

Mr Nigel Lawson, the former chancellor, only once managed to secure a broad ministerial discussion on the European monetary system. The issue eventually tore Mrs Thatcher's government apart, but it never reached full cabinet.

Questions of procedure make clear that a senior minister's ability to force full cabinet discussion of any particular issue is tightly circumscribed. Except in the case of a battle with the Treasury over funding, such a request must first win the support of the relevant committee chairman. Even then, the prime minister can reject it.

Yesterday's documents make no reference to the role of Mr Richard Ryder, the chief whip, who has ex-officio membership of all the main groups. Mr Ryder, the prime minister's agent in much of the behind-the-scenes bargaining between ministers, wields considerable but officially unacknowledged influence across Whitehall. Mr Waldegrave insisted yesterday that Mr Major's decision to publish the details signalled his determination to use the formal committee system.

Senior colleagues say he will be also find it difficult to avoid the attractions of the ad hoc approach to settle the competing claims of Whitehall departments. In such circumstances, the standing committee might become little more than a mailing list for high-level documents. Sir Robin acknowledged that open government extends only so far. The cabinet office will periodically update the list of committees to include details of ad hoc groups, but will not announce their establishment at the time. Without any apparent hint of irony, Sir Robin said such announcements might be "misleading".

In fact, he is anxious to ensure that outsiders cannot delve too deeply into the process of decision-making. More particularly, he wishes to discourage the appearance in public of differences of opinion between ministers.

Mr Gus O'Donnell, the prime minister's press secretary, made clear yesterday that he would not help journalists to track decision-making through the Whitehall machine by revealing when the committees meet.

In terms of open government Mr Major has so far shone a torch rather than a searchlight into Whitehall. But at least there is some light.

Lobbyists welcome cabinet disclosure

By Alison Smith and Richard Evans

YESTERDAY'S cabinet committee disclosures were widely welcomed as a sign of greater openness.

Knowing how and by whom collective decisions are made is already the common currency of those who make their living lobbying government, or whose business depends on it.

Big organisations such as the Confederation of British Industry and the Institute of Directors – and large companies with sophisticated lobbying and public-relations sections – thought the move would make little practical difference because much of the information was already available to them.

Mr Nigel Clarke, a director of GJW, a political consultancy, said that the publication itself was of limited value. "Anyone involved in this area already knows these things exist," he said, "and it does not require the mind of Solomon to work out who's on them."

None the less, Dr Ann Robinson, head of the policy unit at the Institute of Directors, said: "I welcome more open government because it means better government."

Political lobbyists agreed in hoping the disclosures represented a greater readiness by the government to consult interested organisations.

Mr Peter Luff, Tory MP for Worcester and a consultant with the lobbying company Good Relations, expressed a view shared by industry in welcoming the move as "demystifying" relations with government.

He thought it would have a salutary effect on lobbying companies. He said some sold information that encouraged clients to believe they obtained through "conspiratorial" means, rather than relying on selling good advice about how to make a persuasive case to government.

The reforms are likely to help the small-business sector, where expertise is not as great, and where specialist lobbyists are sometimes brought in to provide information that will now be readily available.

Mr Stephen Alambritis of the National Federation of Self-Employed and Small Businesses said the disclosures would be helpful in indicating which ministers were interested in certain subjects.

In general, though, he did not think the current pattern of getting policies across would change much - small businesses, for example, would still be channelled through the Department of Trade and Industry and the relevant minister.

Businesses and the lobbyists agreed that it was more important for them to know how to lobby effectively at an early stage, before a subject appeared on any cabinet committee's agenda. That was more important than discovering the identities of members of cabinet committees.

Mr Clarke described much lobbying as going over policy details with middle-ranking departmental civil servants – "where the decision starts".

Both categories also agreed, however, that while it would be helpful to know when cabinet committee meetings were taking place, so relevant points could be made, they could see why the government had decided against it. That was because of the danger that ministers could be swamped with too many approaches by the lobbyists.

They had clearly come close to sharing a Whitehall view of the world before yesterday's disclosures.

The people who decide British policy

THE CABINET

Prime minister	John Major	Defence secretary	Malcolm Rifkind
Leader of the Commons	Tony Newton	Scottish secretary	Ian Lang
Leader of the Lords/lord privy seal	Lord Wakeham	Welsh secretary	David Hunt
Lord chancellor	Lord Mackay of Clashfern	Health secretary	Virginia Bottomley
Chancellor of the exchequer	Norman Lamont	Social security secretary	Peter Lilley
Home secretary	Kenneth Clarke	Northern Ireland secretary	Sir Patrick Mayhew
Foreign and commonwealth secretary	Douglas Hurd	Minister of agriculture, fisheries and food.	John Gummer
Trade and industry secretary		Transport secretary	John MacGregor
(and president of the board of trade)	Michael Heseltine	Employment secretary	Gillian Shephard
Chancellor of the Duchy of Lancaster	William Waldegrave	Environment secretary	Michael Howard
Education secretary	John Patten	National heritage minister	David Mellor
		Chief secretary to the Treasury	Michael Portillo

MINISTERS OUTSIDE THE CABINET

Agriculture: minister of state - David Curry; undersecretaries - Earl Howe, Nicholas Soames. Defence: ministers of state - Archie Hamilton, Jonathan Aitken; undersecretary - Lord Cecil. Education and science: minister of state - Baroness Blatch; undersecretaries - Eric Forth, Nigel Forman. Employment: minister of state - Michael Forsyth; undersecretaries - Patrick McLoughlin, Viscount Ullswater. Environment: ministers of state - Sir George Young, David MacLean, John Redwood; undersecretaries - Robin Squire, Tony Baldry, Lord Strathclyde. Foreign Office: ministers of state - Douglas Hogg, Tristan Garel-Jones, Alastair Goodlad; overseas development minister - Baroness Chalker; undersecretary - Mark Lennox-Boyd. Health: minister of state - Dr Brian Mawhinney; undersecretaries - Baroness Cumberlege, Timothy Yeo, Tom Sackville. Home Office: ministers of state - Peter Lloyd, Michael Jack, Earl Ferrers; undersecretary - Charles Wardle. Law officers: attorney-general- Sir Nicholas Lyell; solicitor-general - Sir Derek Spencer. Lord Advocate's Department: lord advocate - Alan Rodger; solicitor-general for Scotland - Thomas Dawson. National Heritage: undersecretary - Robert Key. Northern Ireland: ministers of state - Robert Atkins, Michael Mates; undersecretaries - Jeremy Hanley, Earl of Arran. Office of Minister for the Civil Service: Undersecretary - Robert Jackson. Scottish office: minister of state - Lord Fraser of Carmyllie; undersecretaries - Allan Stewart, Sir Hector Monro. Social security: minister of state - Nicholas Scott; undersecretaries - Alistair Burt, Ann Widdecombe, Lord Henley. Trade and industry: minister of state for industry - Timothy Sainsbury; minister of state for trade - Richard Needham; minister of state for energy - Timothy Eggar; corporate affairs minister - Neil Hamilton; undersecretaries - Baroness Denton, Edward Leigh. Transport: minister of state (aviation and shipping) - Earl of Caithness; minister of state (public transport) - Roger Freeman; undersecretaries - Kenneth Carlisle, Steven Norris. Treasury: financial secretary - Stephen Dorrell; paymaster-general - Sir John Cope; economic secretary - Anthony Nelson; undersecretary - Richard Ryder. Welsh Office: minister of state - Sir Wyn Roberts; undersecretary - Gwilym Jones. Whips' Office: chief whip in Commons - Richard Ryder; deputy chief whip - David Heathcoat-Amory; chief whip in Lords - Lord Hesketh.

MINISTERIAL COMMITTEES OF THE CABINET

Committee on economic and domestic policy
Terms of reference: strategic issues relating to economic and domestic policies - Prime minister (chairman) - Chancellor of the exchequer - Home secretary - Trade and industry secretary - Lord Privy Seal - Lord president of the council - Environment secretary - Welsh secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - Northern Ireland secretary - Employment secretary - Chief secretary, Treasury

Other Ministers will be invited to attend for items in which they have a departmental interest.

Committee on defence and overseas policy - Prime minister (chairman) - Foreign secretary - Chancellor of the exchequer - Trade and industry secretary - Defence secretary - Attorney-general
The chief of defence staff and the chiefs of staff will attend when necessary.

Ministerial committee on the Gulf
Terms of reference: to keep under review developments in the Gulf region and to co-ordinate any action

Prime minister (chairman) - Foreign secretary - Defence secretary - Attorney-general

Committee on nuclear defence policy - Prime minister (chairman) - Foreign secretary - Chancellor of the exchequer - Defence Secretary

Committee on European security - Terms of reference: defence and security in Europe.

Prime minister (chairman) - Foreign secretary - Chancellor of the exchequer - Defence secretary

Committee on Hong Kong and other dependent territories
Terms of reference: implementation of agreement with China on future of Hong Kong; policy towards other dependent territories.

Prime minister (chairman) - Foreign secretary - Chancellor of the exchequer - Home secretary - Trade and industry secretary - Defence secretary - Lord president of the council - Foreign office minister of state

Others including the attorney-general, governor of Hong Kong, British ambassador in Peking, overseas development minister, the parliamentary under-secretary at the foreign office and the responsible deputy under-secretary at the foreign office may be invited as appropriate.

Committee on Northern Ireland
Terms of reference: policy on Northern Ireland issues and relations with Ireland on these matters.

Prime minister (chairman) - Foreign secretary - Home secretary - Defence secretary - Northern Ireland secretary - Chief secretary, Treasury - Attorney-general

Other Ministers will be invited as the nature of the business requires.

Committee on science and technology
Prime minister (chairman) - Foreign secretary - Trade and industry secretary - Transport secretary - Defence secretary - Minister of agriculture, fisheries and food - Environment secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - Education secretary - Health secretary - Chief secretary, Treasury

The chief scientific adviser is in attendance.

Committee on the intelligence services
Prime minister (chairman) - Foreign secretary - Home secretary - Defence secretary - Chancellor of the Duchy of Lancaster

The chancellor of the exchequer and the attorney-general attend as appropriate.

Committee on industrial, commercial and consumer affairs - Terms of reference: industrial, commercial, and consumer issues including competition and de-regulation.

Lord privy seal (chairman) - Chancellor of the exchequer - Trade and industry secretary - Transport secretary - Lord president of the council - Minister of agriculture, fisheries and food - Environment secretary - Welsh secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - Northern Ireland secretary - Employment secretary - Chief secretary, Treasury

Committee on the environment - Lord privy seal (chairman) - Foreign secretary - Trade and industry secretary - Chancellor of the exchequer - Transport secretary - Minister of agriculture, fisheries and food - Environment secretary - Welsh secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - National Heritage secretary - Northern Ireland secretary - Chief secretary, Treasury

Committee on home and social affairs - Lord privy seal (chairman) - Lord chancellor - Home secretary - Trade and industry secretary - Transport secretary - Lord president of the council - Environment secretary - Welsh secretary - Social security secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - National heritage secretary - Northern Ireland secretary - Education secretary - Health secretary - Employment secretary - Chief secretary, Treasury - Parliamentary secretary, Treasury

The Minister of agriculture, fisheries and food, the attorney-general and the lord advocate receive papers and are invited to attend as necessary.

Committee on Local Government - Terms of reference: issues affecting local government including the annual allocation of resources.

Lord privy seal (chairman) - Chancellor of the Exchequer - Home secretary - Transport secretary - Lord president of the council - Environment secretary - Welsh secretary - Social security secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - national heritage secretary - Education secretary - Health secretary - Chief secretary, Treasury - Minister for local government

Committee on Queen's speeches and future legislation
Terms of reference: to draft Queen's speeches to parliament and the government's legislative programme for each session of parliament.

Lord president of the council (chairman) - Lord chancellor - Lord privy seal - Chancellor of the Duchy of Lancaster - Attorney-general - Lord advocate - Parliamentary secretary, Treasury - Financial secretary, Treasury - Captain of the gentlemen-at-arms

The foreign secretary should be invited to attend or be represented for discussion of Queen's speeches.

Committee on legislation
Terms of reference: to examine draft bills; to consider the parliamentary handling of government bills, European Community documents and private members' business and other related matters, and to keep under review the government's policy in relation to issues of parliamentary procedures.

Lord president of the council (chairman) - Lord chancellor - Lord privy seal - Welsh secretary - Scottish secretary - Attorney-general - Lord advocate - Parliamentary secretary, Treasury - Minister of state, Foreign Office - Minister of state, Home Office - Financial secretary, Treasury - Captain of the gentlemen-at-arms

Committee on Civil Service pay - Terms of reference: to determine the basis of the annual negotiations and consider other matters concerning Civil Service pay.

Lord president of the council (chairman) - Foreign secretary - Chancellor of the exchequer - Home secretary - Defence secretary - Environment secretary - Social security secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - Northern Ireland secretary - Employment secretary - Financial secretary, Treasury

Sub-committee on health strategy - Terms of reference: the development, implementation and monitoring of the government's health strategy; to co-ordinate policies on issues affecting health. Reporting to committee on home and social affairs.

Lord president of the council (chairman) - Minister of agriculture, fisheries and food - Environment secretary - Welsh secretary - Social security secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - Northern Ireland secretary - Health secretary - Paymaster-general - Minister of state for health - Minister of state for employment - Parliamentary undersecretary for national heritage

The home, transport and education secretaries and the trade and industry secretary should receive papers and may be invited to attend as appropriate

Sub-committee on public sector pay
Terms of reference: to co-ordinate the handling of pay issues in the public sector. Reporting to committee on industrial, commercial and consumer affairs.

Lord privy seal (chairman) - Chancellor of the exchequer - Home secretary - Trade and industry secretary - Transport secretary - Environment secretary - Chancellor of the Duchy of Lancaster - Scottish secretary - Education secretary - Health secretary - Employment secretary - Chief secretary, Treasury

Sub-committee on European questions - Terms of reference: questions relating to membership of the European Community. Reporting to committee on defence and overseas policy.

Foreign secretary (chairman) - Chancellor of the exchequer - Home secretary - Trade and industry secretary - Transport secretary - Lord president of the council - Minister of agriculture, fisheries and food - Environment secretary - Welsh secretary - Scottish secretary - Northern Ireland secretary - Employment secretary - Attorney-general - Parliamentary secretary, Treasury - Minister of state, foreign office

Other ministers will be invited to attend as the nature of the business requires. - The UK permanent representative to the European Communities is also in attendance.

Sub-committee on eastern Europe
Terms of reference: Britain's policy of assisting change in former Soviet republics and other former Communist countries in Europe. Reporting to committee on defence and overseas policy.

Foreign secretary (chairman) - Chancellor of the exchequer - Trade and industry secretary - Defence secretary - Minister of agriculture, fisheries and food - Environment secretary - Employment secretary - Minister for overseas development - Minister of state, foreign office

Other ministers may be invited to attend as the nature of the business requires.

Sub-committee on terrorism
Terms of reference: arrangements for countering terrorism and dealing with terrorist incidents and their consequences. Reporting to committee on defence and overseas policy.

Home secretary (chairman) - Foreign secretary - Defence secretary - Trade and industry secretary - Transport secretary - Scottish secretary - Northern Ireland secretary - Attorney-general

Sub-committee on London
Terms of reference: to co-ordinate policies in the capital.

Environment secretary (chairman) - Minister of state, Home Office - Minister of state for trade and industry - Minister for housing and planning - Minister for local government - Minister for social security and disabled people - Minister of state for education - Minister of state for health - Minister of state for employment - Economic secretary, Treasury - Minister for transport in London - Parliamentary undersecretary for national heritage

Sub-committee on drug misuse
Terms of reference: to co-ordinate national and international policies on drugs misuse. Reporting to committee on home and social affairs.
Lord president of the council (chairman) - Solicitor-general - Paymaster-general - Minister of state, Home Office - Minister of state for the armed forces - Minister of state, Scottish Office - Minister for health - Parliamentary undersecretaries from foreign office, Welsh Office and for schools

Others, including the minister for overseas development and parliamentary under-secretaries from the Departments of the Environment and Employment may be invited to attend as appropriate and should receive papers.

Sub-committee on co-ordination of urban policy
Terms of reference: action on inner cities. Reporting to committee on home and social affairs.
Environment secretary (chairman) - Minister of state, Home Office - Minister for local government - Economic secretary, Treasury - Parliamentary undersecretaries for technology and transport and from environment, education, health, social security, national heritage and employment departments and from Welsh office, Scottish Office and Northern Ireland Office
City Action Team ministers will be invited to attend for items in which they have an interest.

Sub-committee on alcohol misuse
Terms of reference: strategy for combating misuse of alcohol. Reporting to committee on home and social affairs.

Chancellor of the Duchy of Lancaster (chairman) - Paymaster-general - Minister of state, Scottish Office - Minister for health - Parliamentary undersecretaries for consumer affairs and for schools and from Home Office, Welsh Office, Northern Ireland Office, Ministry of Agriculture Fisheries and Food, transport - department and employment department

Sub-committee on women's issues
Terms of reference: policy and strategy on issues of special concern to women. Reporting to committee on home and social affairs.

Employment secretary (chairman) - Paymaster-general - Minister of state, Welsh Office - Minister of state, Department for Education - Parliamentary undersecretaries for consumer affairs, from Social Security, health and emplyment departments, Scottish Office, Northern Ireland Office and Office of the Minister for the Civil Service

The parliamentary secretary, Lord Chancellor's Department, and the parliamentary undersecretaries from the Home Office environment department will also receive papers and be invited to attend as necessary.

TOP CIVIL SERVANTS: PERMANENT SECRETARIES WHO HEAD WHITEHALL DEPARTMENTS

Sir Robin Butler: - Cabinet secretary and head of the Home Civil Service. 54. Oxford. Formerly Treasury official in charge of public expenditure. Was private secretary to Edward Heath 1972-74 and Harold Wilson 1974-75. Keen sportsman who has been known to cycle to work from Dulwich. The ultimate mandarin: "A Renaissance prince" (Peter Hennessy, Whitehall).

Sir Terry Burns: - Treasury. 48. Manchester. Entered the civil service in 1980 after an academic career as an economic forecaster at the London Business School. Was chief economic adviser and head of the Government Economic Service 1980-91 under Sir Geoffrey Howe, Nigel Lawson and John Major. Another keen sportsman who supports Queen's Park Rangers.

Sir Christopher France: - Defence. 58. Oxford. Treasury man who spent time at the Electricity Council and Defence Ministry before heading Health Department. Principal private secretary to Tony Barber and Denis Healey. Recreations: "Keeping the house up and the garden down".

Sir Peter Gregson: - Trade and Industry. 55. Oxford. Career civil servant in DTI and its predecessors. Private secretary to Harold Wilson and Edward Heath 1968-72. Secretary to National Enterprise Board 1975-77. Permanent secretary at Energy Department 1985-89. Recreations: "cabinet-making, automation in the home".

Sir Terence Heiser: - Environment. 60 - about to retire. Joined civil service after leaving school and rose through several departments to become principal private secretary to Tony Crosland. Freeman of the City of London.

Sir Geoffrey Holland: - Employment. 54. Oxford. After career in Ministry of Labour, spent 13 years at the Manpower Services Commission, rising to director.

Sir David Gillmore: - Foreign and Commonwealth Office and head of the Diplomatic Service. 57. Cambridge. Postings in Moscow, Vienna and in London before becoming high commissioner to Malaysia 1983-86. One novel published.

Sir Clive Whitmore: - Home Office. 57. Cambridge. Rose through Welsh Office, Defence and Cabinet Office to become principal private secretary to Margaret Thatcher 1979-82. Permanent secretary at Defence before moving to Home Office in 1988.

Sir John Caines: - Education. 59. Oxford. Career in trade and industry and predecessor ministries such as supply and aviation. Chief executive of British Overseas Trade Board 1980-82. Cabinet Office think tank 1983. Permanent secretary at the Overseas Development Administration before move to Education in 1989.

Graham Hart: - Health. 52. Oxford. Most of career spent in Department of Health and Social Security, apart from spell in Cabinet Office think tank.

Sir Michael Partridge: - Social Security. 56. Oxford. Entered civil service through ministry of pensions and rose to top of Department of Health and social security with a brief stay at the Home office. Senior treasurer for the Methodists.

Sir Derek Andrews: - Agriculture, Fisheries and Food. 59. London School of Economics. Career spent at the ministry, apart from being private secretary to Harold Wilson 1966-70.

Sir Brian Unwin: - Customs & Excise. 56. Oxford. Served with Diplomatic Service before transferring to Treasury in 1968. Senior posts in Cabinet Office and Treasury before moving to Customs & Excise in 1987. Secretary of the board of directors, English National Opera.

Patrick Brown: - Transport. 52. School of Slavonic and East European Studies, London University. After eight years with Carreras, the tobacco manufacturer, he joined Urwick Orr & Partners as a management consultant. He joined the Environment Department in 1972, spending time in the Property Services Agency and Transport Department. PSA chief executive 1990-91.

Sir Peter Kemp: - Office of the Minister for the Civil Service. 57. Chartered accountant who joined the Transport Ministry in 1967. Now heads up the Next Steps project team reorganising the civil service into executive agencies. Something of an entrepreneur by civil service standards.

Hayden Phillips: - National Heritage. 49. Cambridge. Home Office career ended with a spell in Roy Jenkins' private office at Brussels. Moved to Cabinet Office, then Treasury where he was in charge of civil-service matters.

Tom Legg: - Lord Chancellor's Department. 56. Cambridge. Barrister who joined the department in 1962. Assistant solicitor 1975. SE Circuit administrator 1980-82. Deputy clerk of the Crown in chancery 1986-89.

Sir Anthony Battishill: - Inland Revenue. 54. London School of Economics. Career spent shuttling between Inland Revenue and Treasury, including principal private secretary to Denis Healey and Sir Geoffrey Howe. Central Policy Review Staff, the Cabinet Office think tank.

Sir Russell Hillhouse: - Scottish Office. 54. Glasgow University. Most departments at the Scottish Office, with a spell at the Treasury. Recreation: "making music"

Sir Richard Lloyd Jones: - Welsh Office. 58. Oxford. Via Admiralty and Defence to Welsh Office, with short stay in the Cabinet Office. Chairman Civil Service Benevolent Fund.

John Chilcot: - Northern Ireland Office. 53. Cambridge. Rose through Home Office with a period at the Cabinet Office. Principal private secretary to Merlyn Rees and Lord Whitelaw. Seconded to Schroders, the merchant bank, 1986-87

BUSINESS AND THE ENVIRONMENT

Tall tales grow in the forest

The UK's forestry policy has left the country with a subsidised crop of mature trees whose value is often so low that they cost more to cut down than to sell, according to a report* published recently by the World Wide Fund for Nature (WWF).

It suggests that new ways of valuing trees could lead to future generations being left with forests which they want and need, rather than serried ranks of densely planted, environmentally unfriendly conifers.

WWF says that wildlife hates densely planted conifer forests, which allow little light to the forest floor, leaving no ground cover, no animals or insects, and consequently no birds. Conifers can also make the soil acidic and leave it unsuitable for growing anything but the same type of tree.

The UK Forestry Commission has already started trying to put a value on the benefits of forestry apart from the value of the timber. It points out that it is far from easy to evaluate such things as landscape conservation, carbon fixing and job creation in rural areas.

There are now signs, WWF believes, that economic analyses of forestry projects are attempting to describe what it calls "the wider social returns," such as environment costs and benefits. Policy changes include the replacement of tax incentives with targeted grants, as well as new planning procedures.

Andrew Christie Miller, chairman of Timber Growers United Kingdom, the trade organisation for private woodland owners, thinks the WWF report brings together all the aspects of work being done to try to provide economic justification for subsidised forestry.

While there are plenty of grants available in the UK, the level of planting in the UK has dropped to the lowest level since the Second World War.

In the private sector in late 1980s, 25,000 hectares per annum were being planted, but this has now slipped below 10,000 hectares per annum.

David Blackwell

**Trees and the Treasury. Valuing Forests for Society, by R. Worrell. WWF United Kingdom, Panda House, Weyside Park, Godalming, Surrey GU7 1XR.*

The bugs bite back

Clive Cookson reports on the search for pesticides that kill insects but are safer than conventional chemicals

Residues from agricultural chemicals in crops and water supplies are a growing environmental concern. But they provide a business opportunity for biotechnology, which is set to play a big part in the world's $20bn (£11bn) a year pesticide industry over the next decade.

Insecticides are leading the way in the emerging market for residue-free biopesticides. Sales of biological insecticides were in the region of $130m worldwide last year – only 2 per cent of the figure for chemical insecticides. Industry predictions put the bio-insecticide market in 2000 anywhere between $500m and $2.5bn.

The market has been dominated so far by two international companies, Sandoz of Switzerland and Abbott of the US. They make biopesticides from Bacillus thuringiensis (Bt), a naturally occuring bacterium. Bt produces a protein that kills some insects.

These natural Bt pesticides have been on the market for about 20 years. Farmers have not taken them up enthusiastically, despite their environmental appeal, because they do not kill most insects as effectively as conventional chemicals.

Now a group of biotechnology companies, led by Ecogen and Mycogen in the US and Agricultural Genetics Co (AGC) in the UK, is using genetic techniques to develop a more powerful and more diverse range of second-generation insecticides. Large chemical groups such as Monsanto, Du Pont and Ciba-Geigy also have active bio-insecticide programmes.

Insects are the most tempting target for biological pest control, says John Davis, Ecogen chief executive. One reason is that the chemical industry has not developed a significant new class of insecticide since the synthetic pyrethroids 20 years ago. Its recent innovation record is better against the other main types of agricultural pest: fungi and weeds. As a result, some insects are building up resistance to the long-standing chemical pesticides.

Another reason why biotechnology is attacking insects first is the wealth of scientific and technical knowledge built up since the 1960s about Bacillus thuringiensis.

Ecogen, based in Pennsylvania, has a bacterial library of 9,000 strains of Bt collected from around the world. Each produces a slightly different toxin and therefore has a different effect on insects.

The company's new products are based on Bt strains modified genetically through a process known as transconjugation. This is different from the standard genetic engineering technique of "recombinant DNA" which alters the chromosome, the bacterium's central store of genetic information.

Transconjugation involves moving plasmids – extra strands of DNA that some bacteria carry outside the chromosome – from one strain to another. In Bt the plasmids rather than the chromosome carry the insecticidal genes, so scientists have been able to create super-strains with plasmids brought together from different natural strains to have the maximum impact on specific pests.

The Colorado potato beetle is a tempting target for biopesticide makers

Ecogen is already selling three bio-insecticides made in this way and one from AGC – to be marketed by Ciba-Geigy – will be launched later this year. Their targets include various caterpillars, Colorado potato beetle and European corn borer, gypsy moth and spruce budworm.

Mycogen, based in California, has most experience of recombinant DNA work on Bt. Last year the US Environmental Protection Agency approved its first two genetically engineered products, one for use on caterpillars and the other aimed at the Colorado beetle.

Mycogen transfers Bt genes into another common bacterium, Pseudomonas, which is then mass-produced and killed. The dead Pseudomonas cells act as a "bacterial capsule" for the Bt toxins. They therefore persist longer than the original Bt pesticides, which users have criticised because they break down in the environment before they have killed their insect targets.

There has been little environmental opposition to Bt-based biopesticides in the US, because the toxins biodegrade so quickly and leave no residues. Compared with conventional chemicals they are very specific, poisoning the target while doing little harm to other insects and none to birds and mammals.

The Japanese, however, are wary, because current Bt formulations contain not only the toxin crystals but also spores which could in theory give rise to new bacteria. They fear that these could infect silkworms – which are culturally if not industrially important insects in Japan.

"We see no harm at all in having the spores and we have made a Bt that is not toxic to silkworms," Davies says. But Ecogen is now talking to cautious Japanese companies about developing spore-free versions of its products.

Although Bt leads the bio-insecticide field, some researchers are investigating other micro-organisms as a source of toxins. For example Du Pont, the US chemical group, is collaborating with Crop Genetics, an agricultural biotechnology company, to develop insecticidal virus products.

All bio-insecticides are formulated so that growers can mix them with water in a tank and spray on to the crops just like ordinary pesticides. Even so, farmers need to be educated not to expect an immediate "knock-down" as with a chemical poison.

When a susceptible insect ingests Bt toxin, its stomach is paralysed instantly and it stops feeding, but it may not die for three or four days. This can mislead the user into thinking that the spray is working too slowly.

"Once you get over that initial hurdle, growers get a kick out of using a biological product," says Roger Gilmore, chief executive of AGC. "Many of them feel instinctively that it's wrong to use a chemical spray."

Eventually bio-insecticides may face competition from another feat of biotechnology: transfering toxin genes directly into plants, so that the crops then make the poisons in their own cells. Mycogen and Ecogen are both collaborating with seed companies to do this with Bt genes, while AGC is making use of insecticidal genes present in plants themselves.

It will be well into the next century, however, before many plant varieties have been engineered to kill a wide spectrum of potential pests. By then bio-pesticides are likely to have made many conventional insecticides redundant.

Life beyond the Earth Summit

By Senator Al Gore

At next month's Earth Summit in Rio de Janeiro, the world community has an historic opportunity to move forward in a spirit of global partnership to meet the challenges that will define our common future.

Sadly, the agreements to be signed at this historic meeting are hollow shells of the original proposals, with little assurance that there will be any real change in policy or practice, and meagre hope that the environmental crises they are intended to confront will be slowed. Regrettably, it was the intransigence of the US negotiators that weakened the accords.

For example, the climate change convention was to unite the world in efforts to stabilise emissions of carbon dioxide, the principal cause of global warming, at 1990 levels by the year 2000. Instead, principally because of President Bush's opposition to these targets and timetables, the treaty to be signed contains only vague language and no specific goals.

This means that world leaders gathering in Rio must, even now, begin looking beyond the Earth Summit, to build a new global consensus that will create stronger agreements and real progress. We need to create a mechanism to ensure that the parties to the climate convention will meet regularly to strengthen their commitments in the light of scientific developments. We also need to support calls for increased energy efficiency and for increased reliance on renewable energy sources.

We must establish a strong and effective mechanism to carry forward the agreements reached at the Earth Summit. I have suggested establishing a Stewardship Council to deal with matters relating to the global environment, just as the Security Council now deals with matters of war and peace. Or we could establish a tradition of annual environmental summit meetings.

Heads of nations must commit themselves to improving overseas development practices to ensure that the projects are sustainable. One of the best ways of doing this is to increase the transparency of lending practices so that local communities and non-governmental groups have the opportunity to comment on proposals.

Working voluntarily, we must use every treaty and alliance, every tactic and strategy, every plan and course of action to halt the destruction of the environment and to preserve and nurture our ecological system.

What is needed is a plan – call it a Global Marshall Plan for the environment – that combines large-scale, long-term, carefully targeted financial aid to developing nations.

Some strategic goals are obvious. For example, world population should be stabilised, with policies designed to create the conditions necessary for the so-called demographic transition – the historical change from a dynamic equilibrium of high birth rates and death rates to a stable equilibrium of low birth rates and death rates. This change has taken place in most of the industrial nations and in few of the developing nations.

We also need to develop environmentally appropriate technologies – especially in energy, transportation, agriculture, construction and manufacturing.

We must rethink the economic "rules of the road" by which we measure the impact of our decisions on the environment. We need to establish a system of economic accounting that assigns appropriate values to the ecological consequences of routine choices made by individuals and companies, and macroeconomic choices by nations.

Governments need a new generation of agreements that will embody the regulatory frameworks, enforcement mechanisms, incentives, and mutual obligations necessary to make the overall plan a success. These agreements must be sensitive to the vast differences of capability and need between developed and developing nations.

Finally, what is needed is an ecological perspective that does not treat the Earth as something separate from human civilisation. Looking at the whole means looking at ourselves.

If we do not see that we are a powerful natural force like the winds and tides, we cannot see how we threaten to push the Earth out of balance.

The author is a US senator. His book, Earth in the Balance: Forging a New Common Purpose, is published this week by Earthscan. Price £14.95.

FT LAW REPORTS

Bank rescue is tax deductible

LAWSON (HM Inspector of Taxes) v JOHNSON MATTHEY PLC
House of Lords (Lord Keith of Kinkel, Lord Emslie, Lord Templeman, Lord Goff of Chieveley, Lord Jauncey of Tullichettle): May 14 1992

MONEY contributed to the resources of an insolvent subsidiary by its parent company as a term of the sale of all its shares to the Bank of England to remove the threat posed by the insolvency to the parent's business, is a payment to preserve the parent from collapse, not to procure the transfer of shares, and is therefore a revenue, not capital, expense deductible from profits for corporation tax purposes.

The House of Lords so held when allowing an appeal by the taxpayer, Johnson Matthey plc, from a Court of Appeal decision that its £50m injection into an insolvent subsidiary was a capital expenditure.

LORD TEMPLEMAN said Johnson Matthey traded in platinum.

In 1984, it owned all the shares in Johnson Matthey Bankers (JMB), a banking company which assisted the financing of its trade.

On September 30 1984, JMB and Johnson Matthey realised JMB was unable to pay its debts and that without further capital it could not open for business the following day.

Johnson Matthey also realised that if JMB ceased business as a result of being unable to meet its debts, creditors of Johnson Matthey, particularly those who were also creditors of JMB, would demand immediate repayment and withdraw credit facilities.

If JMB could not open for business the following day, Johnson Matthey could not continue to trade.

In those circumstances, Johnson Matthey agreed to sell the JMB shares to the Bank of England for £1 and to contribute £50m to JMB's resources.

The Bank of England agreed to buy the shares on those terms.

The £50m repayment was necessary and was made to enable Johnson Matthey to continue to trade. The objects were achieved and Johnson Matthey continued to trade.

Section 74 of the Income and Corporation Taxes Act 1988 provided that in computing profits of a trade, no sum should be deducted for expenses "not being money wholly and exclusively laid out or expended for the purposes of the trade".

The General Commissioners found, and it was not disputed, that the £50m was wholly and exclusively laid out for the purposes of Johnson Matthey's trade. It was made for the purpose of preserving that trade and for no other purpose.

But that finding did not automatically enable Johnson Matthey to deduct £50m in the computation of its profits. The deduction could only be made if the £50m was a revenue, and not a capital expenditure.

The General Commissioners held that as a payment to preserve an existing business, the £50m was of a revenue nature.

Mr Justice Vinelott and the Court of Appeal concluded the £50m was paid to get rid of the shares. They held it was a capital expenditure.

In *British Insulated and Helsby Cables v Atherton [1926] AC 205*, Viscount Cave said "where an expenditure is made, not only once and for all, but with a view to bringing into existence an asset or an advantage for the enduring benefit of the trade ... there is very good reason ... for treating such an expenditure as properly attributable not to revenue but to capital".

In the present case the £50m payment did not bring an asset into existence, and did not procure an advantage for the enduring benefit of the trade.

So unless the payment was made for the transfer of an existing asset, namely the shares in JMB, the £50m was not capital expenditure.

In *Mitchell v Noble [1927] 1 KB 719, 737* Lord Hanworth MR, holding the relevant payment to be an income expense, said "a payment made in the course of business with reference to a particular difficulty ... was made not to secure an actual asset to the company, but to enable the company to continue to carry on".

In the present case, the £50m was made in the course of business, dealing with the particular difficulty which arose on September 30 1984 as a result of JMB's insolvency; and it was made to enable Johnson Matthey to continue to carry on business unimperilled by its association with JMB.

In *Anglo-Persian Oil [1932] 1 KB 124*, Lord Justice Romer pointed out that in applying the test in *Atherton* "enduring" meant "enduring in the way that fixed capital endures". The advantage did not need to be positive, but might consist in getting rid of fixed capital of an onerous character.

The item of fixed capital which was got rid of, the JMB shares, were not themselves of an onerous character. The £50m payment had no enduring effect on Johnson Matthey's capital. It prevented the whole of Johnson Matthey's business from being brought to a grinding halt.

In *Southern v Borax [1941] 1 KB 111*, Mr Justice Lawrence, holding that payments were revenue, said "if no alteration is made in the fixed capital asset by the payment, then it is properly attributable to revenue, being in substance a matter of maintenance".

By "maintenance" he was taken to mean "preservation". In the present case the expenditure preserved the whole business, though it did not preserve any particular asset.

In *Associated Portland Cement [1946] 1 ALL ER 68*, a payment was held to be a capital asset because the company had thereby improved the value of its goodwill and brought into existence an advantage for the enduring benefit of the trade.

In the present case, goodwill was not improved, but saved from extinction.

In *CIR v Carron (1967) 45 TC 18* the expense of a new charter which facilitated administration and management of the company was held to be a revenue expense because the object was to remove obstacles to profitable trading.

The Johnson Matthey/JMB association was a formidable obstacle to trading at all.

In *Tucker [1979] 1 WLR 683*, Lord Wilberforce said it was logical to start with the assumption that money spent on acquisition of an asset was capital expenditure. He said: "Extensions from this are first, to regard money spent on getting rid of a disadvantageous asset as capital expenditure and, secondly, to regard money spent on improving the asset, or making it more advantageous, as capital expenditure."

In the light of the authorities, it seemed that if the £50m was paid to procure the transfer of shares it was attributable to capital. If paid to remove the threat posed by JMB's insolvency to Johnson Matthey's continuation in business, it was attributable to revenue.

The £50m was paid solely to enable Johnson Matthey to be able to continue in business. The shares were fully paid and worthless. They did not constitute a threat to anybody.

JMB's insolvency was a threat to Johnson Matthey, and the £50m was paid to remove that threat.

The £50m was not paid to persuade the Bank to take the shares. It was paid to persuade the bank to rescue JMB.

The appeal was allowed.

LORD GOFF agreeing, said the payment did not become a revenue payment simply because Johnson Matthey paid with the *purpose* of preserving its trade from collapse.

The question was rather, whether on a true analysis of the transaction, the payment was to be *characterised* as a payment of a capital nature.

That characterisation did not depend on motive or purpose.

It depended on whether the sum was paid for the disposal of a capital asset.

On a true analysis, the sum was not paid for the shares. It was paid as a contribution towards the rescue of JMB.

It was a revenue payment.

Their Lordships agreed with both judgments.

For the Crown: Alan Moses QC and Launcelot Henderson (Inland Revenue solicitor).

For Johnson Matthey: Andrew Park QC and Thomas Ivory (Taylor Joynson Garrett).

Rachel Davies
Barrister

PEOPLE

Watkins heads exodus from Schroder Securities

Richard Watkins, chief executive of Schroder Securities until he left last week to set up his own Latin American investment banking group, has already lured with him to the new venture two Schroders colleagues. They are Swiss-born Pierre Mourgue D'Algue and Per-Arne Johansson of Sweden - two old friends who were in New York when he was there for Hoare Govett in the mid-1980s.

Mourgue D'Algue subsequently ran Schroders' Paris office and has spent the last few months on "sabbatical" - setting up his own safari park in Kenya. He is likely to be based in Geneva to handle continental European clients.

Watkins, whose interest in the region was cemented by a spell in Caracas, also before he joined Schroders, says LatInvest Holdings, initially capitalised at $20m, will be run out of both London and New York in the early days, selling the steady stream of Latin American equity issues to US and European investors. One of the founding shareholders is Grupo InverMexico, the Mexican financial services group, and Watkins is now searching for a Brazilian shareholder.

In time, however, the bulk of the business is likely to be concentrated in New York; US investors are far more familiar with the Mexican and emerging Latin American markets than many of their European counterparts.

Watkins' parting from Schroder Securities is said to be amicable; the latter's strengths are primarily in the Far East, whereas the current opening offers Watkins the chance to put some of his own capital, as well as all his time, the way of his Latin American enthusiasms. He hopes to have a team of 12 executives in place by the end of the year.

He is not being directly replaced at Schroders. Instead, the new chairman of Schroder Securities is Adam Broadbent, a main board director of Schroders and group managing director of corporate finance. He has just returned from two years in New York at Wertheim Schroder.

Humphreys and Birkdale: 'a good fit'

The appointment of Richard Humphreys as a non-executive director to The Birkdale Group, the marketing and human resources consultancy, will probably be viewed as the most interesting move in the UK marketing world this year.

The second occurred when Humphreys was fairly unceremoniously forced out from Saatchi and Saatchi in February, where he had been president and joint chief executive of Saatchi and Saatchi Worldwide, one of Saatchi's two international agency networks. Saatchi's boss, Robert Louis-Dreyfus, decided that Humphreys should make way for the American, Ed Wax, to take single overall charge of SSAW.

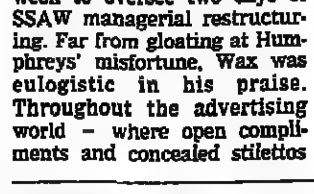
Wax was in London last week to oversee two days of SSAW managerial restructuring. Far from gloating at Humphreys' misfortune, Wax was eulogistic in his praise. Throughout the advertising world – where open compliments and concealed stilettos go hand-in-hand – there seems to be a genuine consensus that Humphreys is one of the nice guys of the business.

Neil McClure, Birkdale's chief executive and also ex-Saatchi, and Simeon Galpert, financial director, formerly with WPP, who have been trying to tempt Humphreys to join since he left Saatchi, are cock-a-hoop.

Humphreys says he and Birkdale "are a good fit" and that the intention is for the company to grow "fast and furious" by acquisitions. He has spent the past two months "travelling the world" looking at suitable purchases. He is sanguine about the prospects for acquisitions, despite the wretched state of those marketing services companies which also gobbled others up in the 1980s; "everybody has learnt a lot since then."

Humphreys is to take 814,000 new ordinary shares in the company for 42.275p a share – a 5 per cent discount to the current mid-market price – representing 4.76 per cent of the enlarged share capital of the company.

Under its new management Birkdale is beginning to pull itself into shape, chalking up modest pre-tax profits – £64,000 – in the six months to September 1991. And once Humphreys takes up a senior executive appointment there later this year, we may hear more of the company – particularly if the economy takes off.



■ Graham Sunderland (above left), general manager of Yorkshire Bank, the north of England banking group owned by National Australia Bank, is retiring in June, after 14 years at the helm and 44 years with the bank. In the 14 years since he became general manager, Yorkshire's pre-tax profits have risen from £12m to £107m last year. He is being replaced by David Knight (near left), currently his deputy.

■ Richard Dunn, chief executive of Thames Television, has been appointed chairman of Independent Television News despite the fact that Thames ceases to be an ITV broadcaster at the end of this year. Dunn has made it clear that Thames intends to retain a 20 per cent stake in ITN.

■ Ewen Macpherson, the new chief executive of venture capital group 3i, has resigned as chairman and director of the Ship Mortgage Finance Company, a subsidiary of 3i. Brian Larcombe becomes the new chairman. It is traditional for the finance director of 3i to take the chair at this offshoot. Macpherson had been 3i's finance director until he was promoted earlier this year, and replaced by Larcombe.

New directors for Southern Water

William Courtney, who has combined the roles of chairman and managing director of Southern Water since the company was privatised over two years ago, has announced the appointment of a new group managing director.

Martyn Webster, 45, the present group finance director, will take over his new duties on January 1 next year.

The move acknowledges the wider role that Webster has progressively played in the development of Southern Water since flotation, and ends an embarrassing episode for the company.

The managing director originally appointed to lead the former water authority into the private sector was found to be unsuitable shortly after and left almost immediately, leaving Courtney to do both jobs.

Webster's role of group finance director will be taken by Raymond King, who will join the main board on January 1, after joining the company as group finance director designate on June 1. King, 39, has spent the past 14 years at ICI in a number of senior finance posts both in the UK and overseas, most recently as controller, corporate operations.

Another new board member from January will be Keith Tozzi, 43, the deputy group technical director, who has been in the water industry since 1966 and has played an important role in the development of Southern's water and wastewater operations.

Opera

Iphigénie en Tauride

Welsh National Opera have waited a long time – 45 years, to be precise – before tackling their first Gluck opera. Patience is bounteously rewarded: on Monday his penultimate work surged out into the New Theatre, Cardiff, with unstoppable force and speed: in clock-time the performance lasted just over two hours, in psychological time it passed in a flash, and with a searing immediacy that can have left few in the audience in doubt they were encountering one of the essential masterpieces of music-drama.

No theatre, said Gluck, can be too small for it; but the New, medium in size, "close-up" in sound projection, seems just about perfect as an *Iphigénie en Tauride* auditorium. This is an advantage of which the conductor, Charles Mackerras, takes full account. He remains unbeatable as a Gluckian who combines "period" niceness of balance and modern communicative passion.

Playing and singing (in French never less than acceptable) are of the highest quality. Every note is rendered telling, reverberant with dramatic intensity precisely directed. The bareness of the score is made – as it must be – its supreme virtue: the silences speak as eloquently as the sounds, and where a single detail or colour (such as the grimly buzzing string tremolo in Thoas's aria) needs to set the tone, Mackerras works the effect with masterly authority.

It is not spacious Gluck conducting. Edges are hard. Rhythms have a kick. Marbled neo-Classical grandeur gives way to immediacy of impact. This chimes with the style of the production by the admired young French team of Patrice Caurier and Moshe Leiser (UK debut). Robes, drapes and columns are thrown out; the set is a box whose mobile partitions have been decorated with faint scratches and striations; the dress is harsh modern (grey skirts for the priestesses, bare feet for all). A single prop (chair, knife) takes on deep resonance as a poetic image. Bleakness is indeed beautiful.

Diana Montague as Iphegeneia: worth crossing the country to hear and see

Alastair Muir

The emphasis is on the trauma suffered by Agamemnon's survivors, the grip of fear and seemingly eternal violence in which both Greeks and Scythians are held. Since the physical action is so fiercely restrained, the smallest physical gesture of consolatory warmth between Pylades and Orestes becomes an emotional expression of overwhelming power.

In all these respects, and in its insistence on seeking out the meaning under the marble, the production plainness manifests a genuinely Gluckian dramatic intelligence; but after a while it begins to seem rather a one-note sort of plainness. There is a lack of conversational variety, of detachment, of "architecture". With the same look of vacant-eyed misery Iphigeneia sing her four very differently expressive arias. Though in a programme interview Mr Leiser marvels at the way "every situation ... relates to the suffering that we can experience nowadays", he and his partner have not found a way of "relating" the funeral rites that should close Act 2. The decision to cut this sublime passage leaves a scar on the whole enterprise.

Luckily, strong advocacy for the production style comes from the excellent cast. Diana Montague, an experienced Iphigeneia (in France and on record), has never sung better on any British stage. Her soprano-ish mezzo carries a rounded gentleness of timbre not usually associated with this most imposing of dramatic-soprano roles. Perhaps the last degree of dramatic-soprano fire is missed – but how musically she deals with the tessitura agonies of "O malheureuse Iphigénie!", how clear and fine her declamation!

This titular heroine is worth crossing the country to hear and see; and so are those of the Orestes and Pylades, Simon Keenlyside and Peter Bronder. On a keyed-up first night Mr Keenlyside's lean high baritone sounded hard tested, but he, more than anyone else on stage, finds the expressive centre in economy of gesture and movement – and nowhere more than in the brilliantly staged account of Orestes's guilt-visions. Mr Bronder youthfully vibrant tenor rings out with exciting freedom; Pylades's role in the drama is made movingly fresh and artless.

The dark-toned bass-baritone of Peter Sidhom takes a gallant, health-risking shot at Thoas's exhausting aria (but Mackerras should consider adopting the Gluckian precedent of lowering it a tone). Among the smaller roles the Diana of Alwyn Mellor, an *Iphigeneia of the future*, stands out. No less than its recent, much-acclaimed *Pelléas*, this WNO *Iphigénie en Tauride* is a bold stage venture vindicated by its music-making.

Max Loppert

In repertory until May 28, then on tour until July 16

Cannes Film Festival/Nigel Andrews

Quirks of fate supplement the prize line-up

At my prep school they used to show a feature film on the last night of term. *No matter what it was – Citizen Kane* or *Carry On Up The Khyber* – the same air of punchdrunk euphoria reigned. The assembled schoolboys knew that their bags were packed and that there were twelve hours to freedom.

It was the same at the end of the 45th Cannes Film Festival. We had written our final exam papers and attended every competition sitting; soon we would hear about the prizes. Now all we had to do was to watch Tom Cruise in the non-competitive closing movie *Far And Away*. This exuberant load of tosh, the first film shot in 65-millimetre since *Ryan's Daughter*, has Cruise as a young Irish peasant who streetfights his way from Connemara to Oklahoma, via Boston, in the 1890s while falling in love with Nicole Kidman (a.k.a. Cruise's offscreen girlfriend).

The Cannes audience loved the film. They cheered when Cruise first kisses Kidman in front of a snow-patterned window with tinkly Christmas harp music from John 'ET' Williams. They cheered the climactic Oklahoma land race and ensuing punch-up between hero and villain for Miss Kidman's hand. Most of all they cheered the fact that Cannes had nothing left to throw at them. Now more than ever was it rich to leave.

The final days brought some piquant addenda, but they were provided less by Hollywood than by North America's shoestring divisions. The expected mega-treats disappointed. David Lynch's *Twin Peaks: Fire Walk With Me* is a catchpenny prequel to the TV series; Sidney Lumet's *A Stranger Among Us* is daft cop thriller with Melanie Griffith going undercover among New York's Hasidic Jews, and Gary Sinise's *Of Mice And Men* is a Steinbeck adaptation notable only for John Malkovich's touching Lenny.

I enjoyed far more two lesser-budget films drawn from their makers' own lives. In the Directors Fortnight actor John Turturro presented his writing-directing debut *Mac*. This low-budget tale of a self-made Italian-American housebuilder (Turturro) and his battle for honest values in a corrupt world is a touch loudhailed: like an Arthur Miller script directed by Federico Fellini. But at best it is also powerfully funny, with Turturro a marvel in the lead role based on his own father.

From Canada came Jean-Claude Lauzon's *Leolo*. The 12-year-old hero is the film-maker himself, growing up in a ramshackle family flat in 1960s Montreal where puberty, poverty and an army of potty relatives surge around him. Especially eye-catching are Grandpa, who is dispatched to a mental asylum during the brief intervals when Leolo is not trying to kill him, and musclebound Big Brother who trains himself to look like A. Schwarzenegger but still gets sand kicked in his face by any passer-by. Like *Mac* the film is loud, episodic and *all' Italiana*. It is also witty, infectious and winningly candid about sexual self-discovery.

The last days of Cannes are devoted in part to catching up with missed films that colleagues tell you are masterpieces. This is never a gratifying pastime. Either the colleague is right, in which case you are late with the scoop. Or the colleague is wrong, in which case you want to brain him.

Braining has been *à la mode* at Cannes in 1992. Top of the films I could have spent my life without seeing is Victor Erice's *The Sun In The Quince Tree*, even though it shared the Prix du Jury and won the International Critics Prize. This 2¼-hour Spanish docudrama about a painter painting, yes, a sunlit quince tree manages the remarkable feat of seeming both artless and pretentious. In a grainy mixture of film and video, it drones on trying to achieve its quasi-religious minimalism. But we never feel cinematically the sensual magic of the artistic process, proclaimed in words by the real-life painter Antonio Lopez. Nor do we know why there are so many extracurricular shots of railway lines or TV sets glowing in night apartments or Mrs Lopez pottering around the house.

So we come to the 45th *Cannes Film Festival* prizes. Jury president Gerard Depardieu walked onto the stage, with that hunched-shouldered rolling gait we know from a hundred French movies, like a bear searching for honey. And soon we knew which honey-pot he was going for. The Palme d'Or winner was Bille August's *Best Intentions*, praised on this page last week and cheered again at Cannes last night. The majestic Ingmar Bergman-scripted period epic, based on the lives of Ingmar's own parents, also won Best Actress for Pernilla August, the director's wife, who played Bergman's mother.

If you can cope with that dynastic tangle, how about the evening's other coincidences and convolutions? America's *The Player*, as well as winning Best Director for Robert Altman, won Best Actor for Tim Robbins, seen here most recently squiring his first film as *director* – the amiable *political satire Bob Roberts* – through the festival. And John Turturro, last year's Cannes *Best Actor for Barton Fink*, also brought *his* directing debut to Cannes, the aforementioned *Mac*, and ran off with the prestigious Camera d'Or award for Best First Feature.

One other Cannes quirk of fate. Bille August was the first non-American to win the Palme d'Or for four years. The last non-American to win the prize was – Bille August. That was for *Pelle The Conqueror* in 1988. What a tangled web the film festival world weaves. This writer is now awarding himself a personal Palme d'Or for getting through it all – the confusions, coincidences and critical rigors – and is departing into well-fed anonymity in central France.

Television/Christopher Dunkley

The feel-good factor

Following the reactions of the American gay lobby to the movie *Basic Instinct* and now RAF widows in Britain to the BBC1 drama *Friday On My Mind* we can, presumably, expect the formation of an organisation dedicated to the banning of *Coronation Street* and *EastEnders* because they fail to show publicans as saints. No doubt Danish aristocrats will get together and agitate for the suppression of *Hamlet* on the grounds that it portrays a Danish prince as verging on the barmy. The American homosexuals condemned *Basic Instinct* because, they said, it depicted the supposed murderer as a lesbian. Actually the whole point was that she was bisexual, hence the torrid affair with the cop, but never mind that. Must all fiction henceforth portray all lesbians (or bisexuals) as angelic upholders of the law? The widows of four RAF aircrew killed in the Gulf have, we are told, "bitterly condemned" *Friday On My Mind* because it shows the widow of an RAF pilot, killed in Wales, having an affair with the married man appointed as her "effects officer".

The widows complain that the drama is "over dramatised and inaccurate" and there were, indeed, some pretty silly scenes in the opening episode, notably the widow's hysterical attack on the air traffic control officer and her tearful night time run across the aerodrome, arms outstretched against luscious blue backlighting, into the path of a taxi-ing jet fighter. It did look as though someone had failed to get beyond the opening chapter of *Teach Yourself Psychiatry*. Nevertheless, it is time that special interest groups gave the general public credit for some imagination and common sense. Everybody belongs to one group or another – rich, poor, black, white, doctors, hairdressers – and if every group succeeded in demands to have its members always portrayed in a flattering light, drama would cease altogether. We do know the meaning of "drama" and "fiction".

*

Today at Lucknam Park near Bath BBC governors and members of management begin a three day conference on the future of the corporation. A deluge of speculation has already inundated us, thanks largely to the inept handling of the reports from 15 internal task forces set up to ponder the future of the BBC from many points of view prior to the renewal of the corporation's charter in 1996. Much of this speculation has been malicious, coming from mass media organisations which are in competition with the BBC, and several facts are notable for their absence from the deluge. First, compared with almost any other major British undertaking in the past 50 years – from education to textiles, from publishing to the motor industry – British public service broadcasting has been an extraordinary success. Internationally it has the very highest reputation, and nationally it is immensely popular. Second, whatever form BBC financing takes, the viewers and listeners will always pay for programmes, whether via the licence fee, at the supermarket checkout, or through subscriptions. The licence fee has so far proved much the cheapest way of financing a remarkable diversity. Third, although it must be possible to make heavy cuts in BBC bureaucracy, if you go further and reduce the organisation much more you will lose that critical mass of talent and experience (and also the possibility of internal cross subsidies) which have led to so many programme successes. To destroy the BBC just for the sake of reinforcing the anti-collectivist dogma of current political fashion would be a tragedy.

*

Which does not mean that the BBC should remain unchanged. In its staff, and consequently its outlook and programmes, it has always been steeply inclined towards the arts and humanities and away from science, industry and technology. Since the BBC is much concerned with entertainment a bias of some degree is inevitable, but it has always gone too far. Last week *The Late Show* on BBC2 took up the once again topical subject of "the two cultures", and one of the scientists present pointed out that it had, as ever, taken a major controversy before broadcasters invited scientists into the studio. Admittedly there was, shortly after that *Late Show*, a splendid Open University programme called *This True Book Of Ours – The Human Body* on the history of human anatomy and especially the work of Vesalius. However, this was the exception, not the rule, and the programme did not begin until midnight.

Pat Heywood and George Cole as Mr and Mrs Root

*

It is significant that the funniest moments in the opening episode of ITV's *Root Into Europe* came at the beginning when George Cole in the title role was found writing some of the blimpish letters to celebrities which gave rise to William Donaldson's book in the first place. Once away from that pretence and into the realities of the Channel ferry and then Paris, nothing was quite as laughable. It all seemed awfully dated. It is 26 years since Johnny Speight brought us that unforgettable xenophobic male chauvinist Alf Garnett, and even then the character seemed like something left over from the thirties. Root is a middle class version of Garnett but today, with millions of Britons having become seasoned Continental travellers, it feels terribly old fashioned to be going through the "frightful froggies" and "randy Eyeties" routine again.

*

Does anybody understand why programmes about the environment are not subject to the same requirements of evidence, balance, and journalistic rigour as other current affairs programmes? Presumably it must be because, consciously or sub-consciously, broadcasters regard environmentalism as more to do with faith than facts; religion rather than science. That must be why you are not allowed to point out on television that nobody knows how long the famous hole in the ozone layer has been there, five years or five million. Presumably it is why you are not allowed to say that one day's volcanic eruption sends as much dangerous chemical matter into the atmosphere as a whole year of aerosol use by the entire human race. No doubt it is why you cannot tell viewers that 80 per cent (or is it now 90?) of those newspapers driven to the dump in fossil-fuel guzzling motors is used for landfill because the re-cycling industry only has the capacity to use 20 per cent.

Such revelations would offend against the faith; what matters is not facts but the feel-good factor. How else can you explain the proud display of a compost box to re-cycle organic waste in BBC2's *Happy Families* which must have taken several trees-worth of timber to construct? How explain the absence in Channel 4's *How To Save The Earth* of any evidence from the millions who would, presumably, benefit from the water and power to be provided by the Danube dam, and the monopolisation of airtime by the few who opposed its building in their back yard?

*

The BBC's director-general in waiting, John Birt, is widely reputed to favour more serious analysis and less trivial human interest material in current affairs programmes. Maybe that why it is becoming standard practice for any BBC programme which wants to do a story about the royal family to present it in the form of analysis of the tabloid press as though television itself would never stoop to such things. This is now habitual on *Newsnight*, where Jeremy Paxman's smoothness about the tabloids is deeply comic, given that he is reduced to feeding not from the same trough but secondhand from others after they have done so. In last week's *Public Eye* on BBC2 the reporter talked superciliously of "gossip columnists and hacks feeding off royalty" as though she believed herself to be working for god's gift to intellectuals. This from someone whose own script told us that "The family's image has backfired".

INTERNATIONAL

ARTS GUIDE

TODAY'S EVENTS

BONN

Oper 20.00 Thomas Fulton conducts Simon Boccanegra, with Bernd Weikl in the title role, repeated on Sat. Fri: Ronald Hynd's ballet Rosalinde (773667). *Tomorrow in Beethovenhalle:* Stanislav Skrowaczewski conducts Bruckner's Eighth *Symphony* (773666)

BUDAPEST

OPERA/THEATRE

Tonight's performance (18.00) at the *Erkel Theatre* is La Gioconda, sung in Hungarian. The repertory also includes Die *Zauberflöte*, *Hänsel und* Gretel and Kodaly's Hary Janos. The State Opera has a ballet gala on *Sat and Erkel's patriotic opera* Bank ban on Sun. Viktor Nagy's new production of Wozzeck opens on *May 29. The Madach Theatre* has Cabaret and the Andrew Lloyd Webber/Tim Rice musical *Joseph and the Amazing* Technicolor Dreamcoat.

CONCERTS

Tonight at the Bartók Memorial House, the Failoni Chamber Orchestra plays works by Rossini, Saraste and Paganini. *Fri: Gyorgy Oravecz gives a* piano recital. Fri and Sun at Buda Castle: Tamas Pal conducts the Salieri Chamber Orchestra in works by Farkas, Mozart and Bartók.

● Pre-booking for concerts at National Philharmonic Booking Office (Vörösmarty ter 1) and for opera at Central Theatre *Booking Office (Andrassy ut 18)*, also at theatre box offices.

COLOGNE

MUSIC

Dmitry Bashkirov gives a piano recital tonight in the Philharmonie. Tomorrow: *Theodora* Geraets plays Bruch's Violin Concerto. Sun: Vladimir Ashkenazy conducts symphonies by Brahms and Zemlinsky (2801). The Opernhaus repertory includes Zar und Zimmermann, Carmen and a ballet by Jochen Ulrich (221 8400)

THEATRE

George Tabori's Jubilaeum opens tonight in the Kammerspiele. Sat in Schauspielhaus: Werner Schroeter directs a new production of Die Soldaten, 18th century play by Jakob Lenz (221 8400)

COPENHAGEN

Tivoli Concert Hall 19.30 Rosalind Plowright sings arias by Wagner, Verdi and Tchaikovsky, with the Tivoli Symphony Orchestra conducted by Andrew Greenwood. Tomorrow: Paavo *Berglund conducts Sibelius' Fifth* Symphony. Sat: Leif Segerstam conducts Mahler's Seventh. The *season runs till mid-September* (3315 1012)

FLORENCE

MAGGIO MUSICALE

Tonight at 20.30 in the Teatro Verdi, Valery Gergiev conducts soloists and ensemble of the Kirov Opera in a concert *performance of Mussorgsky's* Salammbo. Tomorrow: Prokofiev's Alexander Nevsky and Shostakovich's Fifth Symphony. Tomorrow in Teatro della Pergola: Heinz Holliger and Andras Schiff. Next Tues: Pekinel Sisters. The festival continues till July 1 (277 9236)

FRANKFURT

MUSIC

Music from the Musicals is tonight's show at the Alte Oper. Tomorrow: Evgeny Kissin plays Mozart's Piano Concerto No 27 with the Lithuanian Chamber Orchestra. Fri: Tabea Zimmermann and Hartmut Höll play Brahms viola sonatas. Sat: Lorin Maazel conducts Pittsburgh Symphony Orchestra (1340 400). The Opernhaus has a new production of Aribert Reimann's Troades on Sat, conducted by Hans Drewanz and staged by Kurt Horres. The only other performances this week are William Forsythe's ballet Slingerland, on Fri and Sun (236061)

THEATRE

Tonight's performance at the *Schauspielhaus is The Merchant* of Venice, directed by Wolfgang Engel, also Fri. Tomorrow: Uncle Vanya (2123 7444). The English Theater Kaiserstrasse has August Wilson's Pulitzer Prize-winning play Fences, daily except Mon (2423 1620)

LONDON

Covent Garden 19.00 I Puritani with June Anderson and *Giuseppe Sabbatini, also Sat.* Tomorrow: La bohème. Fri: Salome (071-240 1066)

Coliseum 19.00 Nicholas Kok conducts a revival of David Freeman's ENO production of Monteverdi's The Return of Ulysses, with Anthony Rolfe-Johnson and Jean Rigby. Runs till June 19. Tomorrow: John Buller's new Bacchae opera (071-836 3161)

Royal Festival Hall 19.30 Yan Pascal Tortelier conducts the Philharmonia in Walton's Crown Imperial, Elgar's Cello Concerto (Janos Starker) and Sibelius' Fifth Symphony. Tomorrow: Elgar's The Kingdom (071-928 8800)

Queen Elizabeth Hall 19.45 Bheki Mseleku, South African jazz pianist. Tomorrow: London Sinfonietta (071-928 8800)

Barbican 19.45 Stockton's Wing, Irish folk band. Tomorrow: Academy of St Martin in the Fields (071-638 8891)

NEW YORK

THEATRE

● The Substance of Fire: Jon Robin Baitz's play about an *intransigent publisher at odds* with his grown children (Mitzi E Newhouse, Lincoln Center, 239 6200).

● Death and the Maiden: Mike Nichols' Americanised version of Ariel Dorfman's play, with Glenn Close, Richard Dreyfuss and Gene Hackman (Brooks Atkinson, 256 West 47th St, 307 4100).

● The Best of Forbidden Broadway: tenth anniversary *edition of Gerard Alessandrini's* musical revue (Theatre East, 211 East 60th St, 838 9090).

● Five Guys Named Moe: the guys are black dancers and singers of extraordinary ability, who perform the songs of the late Louis Jordan (Eugene O'Neill, 230 West 49th St, 239 6200).

PRAGUE

SPRING FESTIVAL

Tonight and tomorrow the Vienna Symphony Orchestra, conducted by Rafael Frühbeck de Burgos, gives concerts at the Smetana Hall. Tonight's other events include a recital of Liszt piano transcriptions by Leslie Howard at the Rudolfinum and a concert of music for brass by the Wallace Collection at the Wallenstein Palace. In tomorrow's concert by the Suk Chamber Orchestra at the Rudolfinum, Cristina Ortiz is soloist in Mozart's Piano Concerto No 27. Fri and Sat afternoons at St Vitus Cathedral: Patrick Fournillier conducts Massenet's oratorio La Vierge. Sun and next Tues in Estates Theatre: Charles Mackerras *conducts Don Giovanni. Sun in* Rudolfinum: Academy of Ancient Music. Mon: concerts by Orpheus Chamber Orchestra and Czech Philharmonic Orchestra. Tues: concerts by Prague Chamber Philharmonic Choir and Slovak Philharmonic Orchestra (cello soloist Julian Lloyd Webber). The festival runs till June 1 (530293).

● Other events outside the festival programme include a *new production of Ambroise* Thomas' opera Mignon, opening on Sat at the Prague State Opera (formerly Smetana Theatre). The National Theatre has Katya Kabanova tonight and La bohème on Sat. More information from city centre ticket agencies (Bohemia, Na Prikope 16, 228738, or Melantrich, Wenceslas Square 38 in the passage, 228714) and theatre box offices.

ROME

Teatro Valle 19.30 Nello Santi conducts Silvia Cassini's production of Aida, also Fri and Sun. Tomorrow and Sat at Teatro dell'Opera: The Merry Widow (488 3641)

ZURICH

Opernhaus 19.30 Nello Santi conducts Gianfranco de Bosio's new production of Semiramide. Tomorrow: ballet double bill. Fri: L'Italiana in Algeri. Sat: Rigoletto. Sun: Guglielmo Tell (262 0909)

Tonhalle 19.30 Tonhalle Orchestra in works by Gershwin, Shostakovich and Borodin, repeated next Tues (201 1580)

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MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin *Chapman*

Super Channel
0830-0900 (Mon) FT East Europe *Report – weekly indepth analysis* from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 *(Thurs) Media Europe*
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business *Weekly*

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), *0530-0600 (Fri) FT* Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1830-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, *1800*-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

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Wednesday May 20 1992

New realism in Germany

GERMANY has stepped back from the abyss. In a little over 24 hours following Monday's wage settlement, the spectre of damaging strikes in the engineering industry and renewed unrest in the public sector has disappeared. The prospect of a year or more of industrial stability and falling inflation in the western lander are good. But the threat of crisis has not been eradicated; the struggle over how to spread the burden of unification has only been prolonged.

The sudden outbreak of peace in the engineering industry demonstrates how premature were the plethora of obituaries for Germany's consensus-seeking decision-making. The extent of the compromise, and the speed with which the building workers have fallen into line, demonstrates how much both unions and employers wanted to avoid a confrontation.

Little wonder the west German political establishment has breathed a deep sigh of relief. The wage agreements, while high by German standards, do not spell danger for industrial competitiveness; and the fact that the unions appear to have accepted the need for wage restraint should be enough to remove the threat of higher interest rates.

Yet the canker remains. Prospects in the west may have improved, but the plight of the eastern lander continues to deteriorate. Output per head has collapsed, capital investment is depressingly low, and the official unemployment rate has risen to 15 per cent. Adding all the hidden unemployed on various schemes increases the proportion of the potential work force without jobs to 40 per cent. What economic activity is occurring in the east remains largely dependent on transfers from west German taxpayers. Net transfers are expected to rise to 81 per cent of east German output this year.

Wage conversion

The root of Germany's economic and social problems is the pace at which wages in the east and west are converging. Parity in the engineering industry is timetabled for 1996. But east German productivity is only a third of west German levels. No wonder eastern industry is unprofitable and the pace of industrial privatisation so slow.

These wage convergence deals should be rethought; but the ease with which skilled workers can migrate mean that wages will still converge faster than productivity. Unemployment in the east will stay high for some time. One way or another the west German government will have to subside eastern living standards.

Inefficient industries

Yet the government is currently impeding rather than speeding the transformation. The most inefficient industries should be allowed to close; but instead they receive the lions share of subsidies from the Treuhand. Rather than paying people to do nothing, government should instead subsidise employment in the private sector. The subsidies should be temporary; but by closing the gap between east German wages and productivity, they would encourage the growth of private industry, rather than public idleness.

Yet whether the transfers subsidise employment or unemployment, the flow will continue for years. The cost of these transfers was inevitably going to place great strains on the social consensus in the west. But these strains have been magnified by the unwillingness of the government to demand of the west German people the necessary sacrifices.

The pain is not over. Despite last year's tax increases, public borrowing continues to grow at an unsustainable pace. The government's commitment not to increase taxes further already looks unrealistic. If it plans to stick to its pledge to bring borrowing under control, then government will have to cut spending. The candidates for cuts are numerous – subsidies in agriculture coal and steel, and local government spending. Government at federal and land level must specify where the axe will fall.

The bravery of Mr Kohl's embrace of unification in 1990 has been matched by the poverty of his subsequent policy actions. But the events of the last few months should have taught him and his colleagues the error of their ways. It is time for Mr Kohl to come clean. If the coalition government fails to act decisively, there will be more confrontation and, quite possibly, a new government in 1994.

Half-open government

YESTERDAY'S moves to expose some of the workings of government to public scrutiny are welcome if long overdue. The publication of the membership of Cabinet committees will not change the world. And the 130-paragraph Questions of Procedure for Ministers is unlikely to enter the best-seller lists. But the workings of government will become marginally more transparent, allowing voters greater insight into what goes on in their name.

Defenders of the old order such as Lord Armstrong, the former Cabinet Secretary, have warned that the removal of such restrictions means the end of ministerial solidarity. If every backbencher knows that the Cabinet has overturned the recommendation of a committee, the committee members will be unable to maintain straight-faced the convention of collective responsibility. It will be impossible to challenge foreign dictators or vanquish insurgents at home, the doomsters say, if ministers cannot present a convincing picture of unity.

Such scenarios are less than convincing. Ministers who fall out with colleagues are already adept at using the lobby system to advance their case. Cabinet splits emerged during the Falklands War and the miners' strike without seriously impairing the government's efforts. Good government can withstand public scrutiny – indeed is more likely to thrive under it.

The government is promising more openness to follow. Mr William Waldegrave, the minister in charge of the reforms, has found more than 150 restrictions on the disclosure of information which he hopes to tear up. Mr Major wants to clear the attics of Whitehall of old documents withheld from the public long after 30 years has expired.

Veil of secrecy

All of this is commendable. Two world wars shrouded British public life in a veil of secrecy which is only now being gingerly cast off. It is often easier to research recent British history in the US with its freedom of information legislation or even in the voluminous records of the old Soviet intelligence services which are now fully open to public examination.

The government rightly claims that it has done much to make more official information available. Computerised data are now largely open on demand. Patients can inspect their medical records. Much more information is published about the performance of the public services.

But Britain remains a country of unnecessary secrecy. Much government information about safety, for example, is unavailable to the public which pays for its collection. If information about the safety of pesticides can be published without breaking commercial confidence, why does not the same apply to new medicines?

Public domain

Fire inspections carried out in London Underground stations are in the public domain; those on British Rail are not. The Transport Department tests new cars for pollution standards and safety – and refuses to make the results available to consumers. Coroners' courts withhold documents on fatal accidents from government-funded safety researchers.

Equally, the unfortunate imbroglio over the deaths of nine British servicemen in the Gulf "friendly fire" incident has been magnified by official secrecy. The desire to sweep the incident under the carpet has added to the burden of bereaved families, damaged the reputation of the UK government and almost certainly made transatlantic relations worse.

The government claims that a Freedom of Information Act would not help because it would deluge the citizen with information, much of it useless. Far better, ministers say, to create a culture in which the government machine releases willingly the information which the citizen needs. Such paternalism is not good enough: it is for the citizen to make the decision about what he or she wants to know. If there are reasons for withholding it – on national security, commercial confidentiality or other acceptable grounds – the government must justify it case by case, subject to independent appeal.

If Mr Major wants to go down in history as the instigator of open government – an honourable aim – he will in the end have to take on the vested interests which resist a Freedom of Information Act.

Unequal rates of economic and political development have brought violence to the streets of Bangkok, says **Victor Mallet**

Ugly roar from a young tiger

One of the enduring myths fostered by Thais about their country is that there is a peculiar and subtle "Thai way" of conducting business and politics. The phrase is used to explain everything from compromise and flexibility to corruption and hypocrisy.

Even in the face of evidence to the contrary, Thais have long been proud of what they see as a unique system of avoiding confrontation and unpleasantness. "We Thai people hate violence," said a shop owner on Monday from a vantage point at the top of a Buddhist temple, even as gunfire echoed through the capital and rioters set fire to a car in the street below.

The concept of the "Thai way" has been shattered by the events of the past few days. "Welcome to Thailand," said a Thai businessman when he spotted a foreigner in a lift in a city centre office building yesterday. "Land of smiles – and bullets."

The sight of soldiers shooting pro-democracy demonstrators – at least 21 people are reported to have been killed and hundreds injured in the past three days – and of rioters ransacking government buildings, has appalled local businessmen and foreign investors who once put their trust in the "Thai way".

Army brutality and the savagery of the rioters makes an ugly contrast to the growing industrial and financial sophistication of Bangkok. Thailand has undergone rapid economic development in the past decade, based on foreign investment and export promotion, but the political system of military influence, corruption and patronage has failed to evolve at the same pace.

The fact that this failure, which is shared to a greater or lesser extent by the other dynamic economies of south-east Asia, has become such a critical obstacle to stability in Thailand is disturbing news for foreign investors in the region.

Japan in particular has been making unusually loud anxious noises. "The Japanese government is deeply concerned about the rising tensions in Thai politics and wishes a peaceful and rapid return to order," Mr Koichi Kato, the Japanese government spokesman, said yesterday.

Foreign investors had been wary of Thailand since last year's coup d'etat arranged by General Suchinda Kraprayoon, who was then armed forces chief and is now struggling to retain his new post as prime minister. Net foreign direct investment from Japan, Europe, the US and elsewhere fell to $1.2bn last year from $1.5bn in 1990, and investment in the stock market was down to $88.5m from $455m.

But it has taken a series of pro-democracy demonstrations to convince many Thai and foreign businessmen that there was a real danger of confrontation. Less than two weeks ago Mr Olarn Chaiprawat, the senior vice-president of Siam Commercial Bank, said he was telling worried foreigners businessmen that "there would not be anything violent and the situation should return to normal soon".

This week's events will compound the problems Thailand now faces as it seeks continued investment. It faces stiff competition from industrial exporters in south-east Asia, such as Indonesia, which have lower wage costs. Thailand needs infusions of foreign capital and technology to shift the emphasis from textiles and agricultural products to electronics and other high-technology industries. It also needs to raise from local and foreign sources an estimated $8bn over the next five years for transport projects in the Bangkok area alone, as well as finding funds for other infrastructure improvements throughout the country.

For the moment, the economy shows little signs of losing steam. After three years of double-digit economic growth between 1988 and 1990, it expanded by more than 8 per cent last year. While this has made Thais in general and the inhabitants of Bangkok in particular increasingly prosperous, several factors have undermined their sense of wellbeing: severe pollution, the inability of chronically weak political institutions to reflect their concerns, and the absence of the rule of law.

It is no coincidence that the violence has been centred on Bangkok, where the dislocation between economic sophistication and national political immaturity is so glaring. Bangkok is the only large city in Thailand: the metropolis and the area around it account for three-quarters of the country's industrial gross domestic product, and it is in Bangkok that most of the educated elite and the middle class reside.

Mr Chamlong Srimuang, the ascetic Buddhist opposition leader arrested by troops on Monday, is immensely popular among almost all sections of Bangkok society. He opposed corruption during his two terms as the city's mayor and his Palang Dharma (Moral Force) party won 32 of the 35 seats in the general election in March this year.

Nationally, however, the election was won by a coalition of five pro-military parties which used the traditional method of cash hand-outs to buy the votes of millions of peasants in the countryside. The Samakki Tham (Justice Unity) party which won the largest number of votes was an organisation established after the 1991 coup specifically to entrench the influence of the military establishment in civilian politics.

The inadequacy of Thailand's corrupt, quasi-democratic political system and its failure to meet the aspirations of Bangkok's middle class is a more profound reason for this week's violence than the ineptitude of Gen Suchinda himself.

After he arranged the 1991 coup which overthrew the elected government of Gen Chatichai Choonhavan on the grounds that it was too corrupt, the military surprised and delighted the foreign and local business community by appointing Mr Anand Panyarachun, a respected businessman and former diplomat, as interim prime minister.

It was an inspired choice, and the Anand administration was regarded as the best that Thailand has ever had. Mr Anand built on the achievements of Gen Prem Tinsulanonda, prime minister for eight and a half years until 1988, by pushing through a series of economic liberalisation measures and resisting demands for more weapons from the military officers who had appointed him.

His tenure, which ended with this year's election and the subsequent imposition by pro-military parties of Gen Suchinda as prime minister, now seems like a pleasant dream compared to the horror of the past few days.

If Gen Suchinda had not underestimated the resentment felt by Bangkok's increasingly educated citizens towards the heavy-handed involvement of the military in politics and business, the country's adaptable and dynamic economy would doubtless have muddled through as it has in the past. The violent results of that miscalculation have now been seen around the world, reducing Thailand's international image, in the words of the Bangkok Post, "to nothing better than a banana republic".

Foreign investors who used to shrug off Thailand's usually bloodless coups – there have been 18 since the end of the absolute monarchy in 1932 – are now profoundly concerned, although they say it is too early to make accurate predictions of the damage to the Thai economy.

"It's very bad news," said one foreign banker yesterday. "I told my staff today that they won't get sacked tomorrow, but that they should have no illusions: this is going to be bad for our business."

Tourists – more than 5m visited the country last year and earned Thailand more than $4bn in foreign exchange – have already begun to cancel holidays. The impact on commerce and industry is more difficult to assess, but rumours of renewed rioting prompted most shops and offices in the capital to send their staff home and close early yesterday.

The head of one multinational company predicted that Thailand would find it difficult to raise money on international markets and could face difficulties with its balance of payments. Thailand might have lost a year of economic development because of the violence, he said. "It looks like you're not talking just about something getting a bit out of control, but a much deeper problem."

Thai businessmen appear to be universally gloomy. After a holiday on Monday, the stock exchange index fell nearly 9 per cent yesterday to its lowest level this year, with many stocks falling to the lower limits set by the exchange. Thais queued at banks to withdraw money from their accounts.

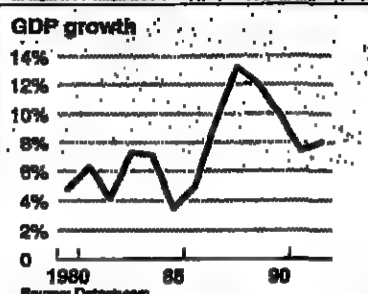
In an attempt to calm the markets, the central bank said it had prepared a 30bn baht cash reserve to provide commercial banks with standby baht funds and was ready to draw from its $20bn foreign exchange reserve to meet any heavy demands for US dollars. For the time being the responsibility for containing the damage to Thailand's reputation as a haven for investors rests with Gen Suchinda and his military colleagues.

The signs last night were not hopeful. In an abrasive statement on national television, Gen Suchinda blamed the violence on communist instigators, while the citizens of Bangkok – few of them communists – seemed adamant that they would continue to demand his resignation. Although young men with motorcycles have been burning cars and smashing traffic lights in the city centre, Bangkokians rich and poor generally blame Gen Suchinda and the military rather than the rioters for the trouble.

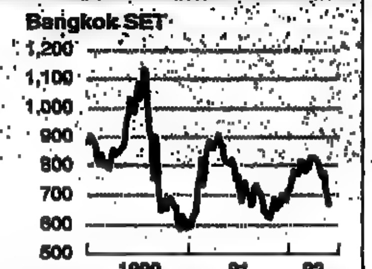
These are the worst disturbances since the 1970s and one of the hopes espoused by Thais is that their revered monarch, King Bhumipol Adulyadej, will intervene to help change the government as he did when student demonstrators confronted the authorities in 1973. Another possibility is a split in the military and yet another military coup.

"Thailand," wrote Joseph Wright in The Balancing Act, his history of the country, "is full of optimists. Thais like to believe that things, sooner or later, will work out for the best." Yesterday, however, Thais were uncharacteristically pessimistic, knowing that they will need to call on all their famed spirit of compromise to return the country to political and economic stability after the disastrous events of this week.

Thailand's economy:
Tigerish growth based on exports and foreign investment



Source: Datastream



Source: Datastream

US$m	1982	1987	1988	1989	[illegible]	[illegible]
Trade flows						
EC	2,649	4,605	6,455	7,466	[illegible]	[illegible]
Japan	2,955	5,108	8,039	11,158	[illegible]	[illegible]
Asia*	3,965	6,900	9,352	11,721	[illegible]	[illegible]
US	2,025	3,783	[illegible]	[illegible]	[illegible]	[illegible]
Exports						
EC	1,638	2,589	3,315	3,839	[illegible]	[illegible]
Japan	951	1,732	2,544	3,421	3,958	[illegible]
Asia*	2,026	3,104	4,144	4,876	5,175	[illegible]
US	891	2,153	4,290	4,858	5,240	[illegible]

*Asia excludes Japan as defined in IMF statistics
Source: IMF

Total foreign investment

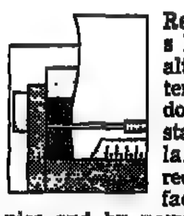
Baht m ($1=25.4535 baht)	1987	1988	1989	1990
Japan	24,829	77,019	90,569	50,336
US	4,430	17,028	14,123	22,173
UK	1,993	8,367	12,493	4,362
Others	3,918	4,204	24,900	9,297
By sector				
Electrical appliances	1,137	6,309	6,497	n.a.
Chemicals	868	1,947	2,526	n.a.
Construction	1,349	1,959	3,919	n.a.

Source: Board of Investment

PERSONAL VIEW

Bring back apprentices

By Malcolm Craig



Reports of skill shortages, although inconsistent across the UK, do have some substance. In particular, the skills required by manufacturing companies and by users of information technology have become a focus of attention.

There have been various theories about causes. One of the most common is Britain's failure to invest in training. But little consideration has been given to a possible relationship between skill shortages and the decline in apprenticeships. This decline shows signs of slowing: ICI and British Steel have significantly increased the number of apprentices being recruited. There is little evidence, however, that this has become a national trend. It can be argued that neglect of apprentice provision has damaged the UK's industrial base.

Critics of the old apprentice system claimed that it was rigid and nurtured prejudices about skills and how they should be taught. Apprenticeships, they said, had become too closely identified with restrictive craft practices, in particular the strict demarcation of work.

Changes *were* needed in the design, timing and presentation of apprenticeships. But the response – to put them into decline – has proved to be a mistake, and is a good example of throwing the baby out with the bath water.

The "baby" is job-specific training and education. Too much training today is in the form of short courses, isolated from actual jobs. Fundamental to the concept of apprenticeship is the aim of introducing a person to a specific area of employment to learn essential skills and knowledge. This is in sharp contrast to teaching someone skills and knowledge that, it is claimed, can be transferred to different jobs.

An apprentice joins a group of like-minded people who wish to follow a particular occupation, and to reach a predetermined goal; in other words, learning is both directed and purposeful. The professions – medicine, law, accountancy – have retained the concept of apprenticing. Practitioners serve what can be recognised as an apprenticeship for an agreed period to reach agreed goals. The professions recognise that learning needs to be grounded in a context that makes it meaningful.

People in non-professional roles have had a hotch-potch of programmes imposed on them by training providers. These programmes, particularly in construction, engineering and the service sector, rarely have a direct link to specific occupations and contain only bits of skill.

This approach to vocational training has failed to meet current and future demands for a skilled workforce. There is a need to develop a new apprenticeship system in the UK to provide the skill mix required for changing technology – for example, the introduction of computer numerically controlled machine tools. Greater flexibility is required in combining the types of skill taught, such as the practice adopted recently by a consortium of companies and Wearside College in the north-east for the training and education of electro/mechanical technicians. There is also a need for flexibility in the allocation of time, currently between one and three years depending upon the occupation.

In addition to time allocation, time of life should be considered. There is no reason why someone should not complete more than one apprenticeship in a working life as part of on-going learning.

While many significant changes are needed, there is a strong case for keeping the concept of apprenticing intact. This has been done in Germany where almost 2m apprenticeship places are filled, the highest take-up in Europe. This is part of a dual system: in-company training places are supported by technical education in vocational schools (*Berufsschule*). Training continues to be strongly work-related, and adaption to the needs of developing technology takes place within the framework of this system.

By contrast, training in the UK is a mess. It lacks structure, coherence and purpose. The quantity and quality of training is low. With few exceptions, this is true in absolute terms, as well as in comparison with overseas competitors.

Government expenditure on training is considerable, as ministers point out repeatedly. But it is being dissipated among a wide range of administrative bodies responsible for the training and its measurement. These bodies include the Department of Employment, the Department of Trade and Industry and the Training and Enterprise Councils.

The resources are being misdirected. A strategy for apprenticeship renewal must involve fewer agencies and government departments. The funding for regenerating apprenticeships should continue to flow through the TECs, but be more narrowly focused. Employers and unions can provide the necessary instruction while ensuring that training is work-related.

The author is an independent consultant on training.

Edward Mortimer

Reaper of a whirlwind

Environmentalism does not come naturally to the new man in charge of Brazil's ecology

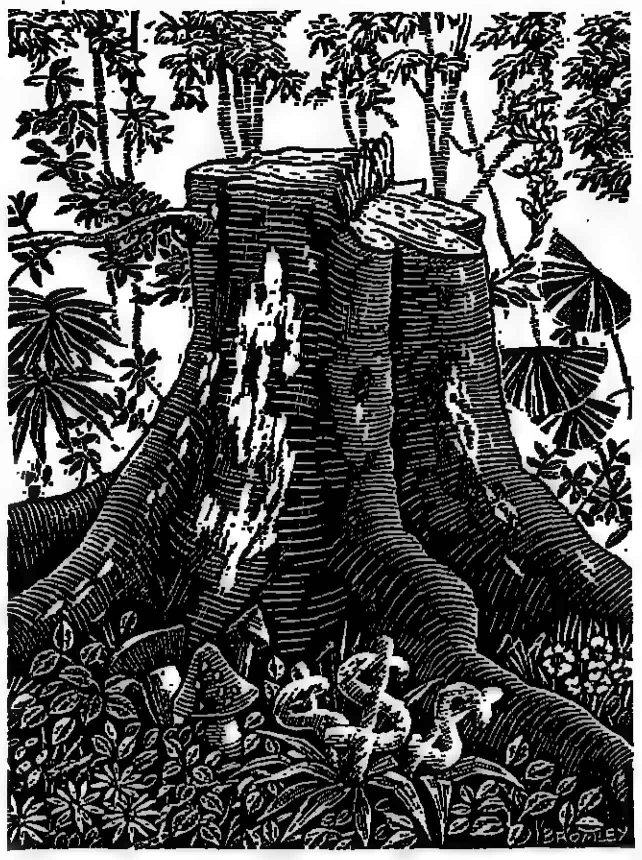
FOREIGN AFFAIRS

Mr Jose Goldemberg is on the defensive.

Two months ago, his colleague Mr Jose Lutzemberger, one of the world's leading defenders of the Amazon rainforest, was sacked as Brazilian environment minister by President Fernando Collor de Mello for publicly accusing the federal agency responsible for protecting the forest – supposedly under Mr Lutzemberger's own ministerial control – of corruption and misuse of foreign funds. With barely 10 weeks to go before the Rio Earth Summit, Mr Goldemberg stepped in as acting minister, while retaining his education portfolio. He thus has responsibility for Brazil's two most urgent problems, after the struggle to contain inflation – and the latter means he has very little money to spend on either.

He also has to defend the environmental policies of a country whose already low credibility in that department has been further lowered by Mr Lutzemberger's departure, at a time when, by hosting the Earth Summit, it has invited the scrutiny of environmentalists the world over.

He is at least able to say that the rate of deforestation of the Amazon has fallen by half since the government took office, which, he claims, means a 1 per cent cut in worldwide carbon dioxide emissions. This has been achieved partly by the removal of tax incentives, which previously encouraged "development" of the area, and partly by more vigorous policing – though it may also reflect a drop in demand for both timber and cattle due to the country's recession.



But environmentalism does not come naturally to Mr Goldemberg. A nuclear physicist by training, he exudes the self-confidence and certainty of the great 19th-century educational reformers, rather than the diffidence and guilt that are more fashionable among late 20th century scientists. "I'm not an environmentalist," he says frankly. "I'm a scientist who happens to know what causes environmental destruction." He then pulls out a hefty tome, Energy for a Sustainable World, of which he is co-author, to prove that he is, in his own words, "not a completely worthless person".

Certainly, his attitude is more sophisticated than that of many Brazilians who ask, "how can people in Europe make so much fuss about trees, when three-year-old children here are begging in the street?" (A question usually asked by members of the top 20 per cent of Brazil's population, who receive 26 times the income of the bottom 20 per cent.) But to conclude from that that the rainforest is safe in his hands is a leap many environmentalists will be unwilling to make.

In Mr Goldemberg's view, scouring the forest for medicinal substances, on the off chance that "eventually in one of these plants you might find a cure for cancer", is "not what science is about". On the contrary, "to discover things requires a great deal of expenditure and equipment: just because a tree belongs to a people doesn't give them a right to exploit it." He thus brushes aside the grievance of the Jaburandi people, who claim to have discovered the only effective cure for glaucoma, only to see a big international pharmaceutical company buy the entire crop of the plant and patent the formula.

The Brazilian minister says he is 'too reactionary' to take alternative medicine seriously

The Jaburandi are paid only per tonne of leaves harvested, although they say it was their knowledge that led to the discovery in the first place. Other Amazonian peoples are now said to be keeping their medical knowledge (for instance, of the contraceptive properties of various plants) a closely-guarded secret, until their right to share in the proceeds can be guaranteed.

Brazil has already, in its 1988 constitution, recognised the Indians' rights to the lands they occupy, and the government is carrying out the demarcation of those lands. Indigenous peoples are thus already recognised as legal entities enjoying collective rights. It seems only a small step from there for them to take out patents and sign contracts. One problem that can be anticipated is that more than one of them would claim "ownership" of the same traditional remedy. Ideally, perhaps, they should be persuaded to set up a common forest protection fund, into which all royalties on traditional forest products could be paid. But there might well be difficulty in agreeing who should administer such a fund and how it could be spent.

Efforts to forge a nationwide representative body for the indigenous peoples have so far been abortive. Their most eloquent spokesman is Mr Aylton Krenak who is most often to be found squatting by a log fire in the "Forest People's Embassy" in São Paulo. But according to Mr Fabio Vilas, secretary of the Brazilian Bishops' Conference's Conselho Indigenista Missionario (CIMI), Mr Krenak is simply "one person who decided he represented the indigenous peoples: his movement has no elections, no general meetings, no groups affiliated to it". Mr Krenak's supporters accuse CIMI of seeking to group the indigenous peoples "under the skirts of the padres", instead of enabling them "to participate in Brazilian society while maintaining our own customs".

The problem of organising the indigenous peoples is real, but Mr Goldemberg shows no interest in solving it. Stressing his "enormous respect for scientific knowledge" (and for the research costs involved in converting a traditional herbal remedy into a saleable pharmaceutical drug), he admits that he is "too reactionary" to take alternative medicine seriously; and even where forest products do turn out to have commercial value he doubts the realism of trying to preserve the benefit for forest people.

"The world is a very nasty world," he declares, citing the 19th-century rubber boom which went bust when British adventurers "stole" samples of rubber trees and took them to Malaya, where they were soon able to producer rubber much more cheaply than the Brazilian rubber-tappers could. He claims that schemes to preserve or revive the forest economy always require an unrealistic degree of state subsidy, and that the destiny of most forest dwellers at the end of the 20th century must be to join the great mass movement of urbanisation.

In practice, for most forest people, that could only mean a squalid and marginal existence in the favelas (shantytowns) of the great Brazilian cities. Statistically their life in the forest may be poorer, but there can be little doubt that it is happier and more complete.

Does the law of history and the market forbid them to improve their living standards by any other route? Perhaps mass urbanisation is indeed their unavoidable fate, but there was a time when slavery was regarded as similarly inevitable. History is not static: it is above all a record of changing human attitudes and behaviour. We have learnt to set a value on bio-diversity (the multiplicity of species) and on cultural diversity within the human race. In the Amazon rainforest, both are at stake, and preserving one can help to preserve the other.

One way to go about it, and perhaps the most effective in a market economy, is to set a price on forest products reflecting the value of the environment and culture which lie behind them. Perhaps European and North American consumers could be persuaded to pay extra for a "rain forest condom" made from Amazon rubber? Another would be to recognise the inhabitants of the forest as its custodians, and pay them a direct salary for performing that role.

Brazil, and the world, can surely improve on Mr Goldemberg's Darwinian fatalism.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

UK must counter ageism in Europe

From Mr Hugh McMahon and Sir Jack Stewart-Clark.

Sir, The Department of Employment's commitment to tackling age discrimination as a priority of the UK presidency of the EC ("Over 35 is over the hill for Brussels job-seekers", May 15) will deservedly highlight this issue at European level.

UK members of the European parliament have for some time been pressing for action to lift upper age limits on recruitment to EC institutions both via the parliament's Intergroup on Ageing and through parliamentary questions. The European Parliament has called several times for action to stop age discrimination in the Community.

The European Court of Justice recently took a small step in the right direction, by raising its upper age for recruitment to executive posts from 32 to 40. But the European Parliament, as well as the Commission, continues to set upper limits of 33.

The UK government should, as a priority, persuade the EC institutions to lift their upper age limits during 1992, and set an example to employers.

Hugh McMahon,
Jack Stewart-Clark,
UK co-presidents of the European Parliament's Intergroup on Ageing

From Mr W G Methven.

Sir, Your report on the policy of ageism suggests that the EC's policy is as irrelevant and "stupid" as the employment minister, Michael Forsyth, implies.

The notion of "jobs for life", which is suggested by the proposed Brussels policy, has largely disappeared, but so has "over the hill at 40".

The minister was right to point out that the recession has resulted in experienced and talented people in mid-career being made redundant, but being in mid-career is not necessarily proving a stumbling block in finding new jobs. A recent survey by my company found that less than 20 per cent of client respondents aged between 40 and 55 quoted age as a barrier to new appointments. Increasingly employers are recognising the benefits of maturity.

W G Methven,
26 Park Row, Leeds LS1 5QB

Now time for Oftel to take on BT

From Mr Peter Knowles.

Sir, For once a regulatory body appears to have teeth, witness the reluctant agreement by British Gas to provide a miserly price reduction just meeting the minimum necessary to avoid legal action.

Would it be too much to ask that Oftel whips up sufficient enthusiasm and courage to take on the mighty British Telecom and its cosy duopoly? After all, the profits earned (sic) last year must qualify BT as one of the most profitable companies in the world. Consider the population in the UK, compared with the US, and then ask why BT makes more profit than AT&T and all the regional Baby Bells in total.

Should Oftel need help in the courage department please ask them to call.

Peter Knowles,
CIC Investments,
17-18 Picton Place, London W1

Clarifying advisers' position

From Jack Beatson.

Sir, The statement that regulators and firms believe that the present uncertainty about the impact of the Financial Services Act on the common law fiduciary duties of advisers and brokers is preferable to the introduction of new legislation ("Results of City rules review welcomed", May 12) does not represent the complete picture.

The responses to a questionnaire circulated by the Law Commission in November 1990 to firms, individuals, regulatory bodies and organisations representing the different interests involved (business, professional and consumer interests) revealed that while many respondents were of the view set out in your article, many others, including City solicitors, regulatory bodies and several merchant banks, believe that the present uncertainty is unacceptable.

For example, provision is made in regulatory rules for 'Chinese walls' but, although in some instances courts have taken account of regulatory rules in determining whether common law and fiduciary duties have been complied with, on those occasions in which courts have considered the efficacy of 'Chinese walls' (most recently last year) they have not been seen as providing satisfactory protection for clients.

The Law Commission provisionally believes that a short piece of legislation is necessary to clarify the legal position by providing that account should be taken of reasonable regulatory rules when determining the content of fiduciary duties. This would not represent a further upheaval for firms and their customers. It would rather facilitate the efficient functioning of the market by introducing reasonable certainty as to the duties of advisers, brokers and other practitioners.

However the Law Commission wants to obtain as many views as possible on the various options for reform set out in its consultation paper before finalising its recommendations.

Jack Beatson,
law commissioner,
Law Commission,
Conquest House,
37/38 John Street,
Theobalds Road,
London
WC1N 2BO

The costs of Concorde that should not be ignored

From Sir Robin Maxwell-Hyslop.

Sir, Paul Taylor blandly states ("Concorde: a hard act to follow", business air travel survey, May 11) that 10 years after its introduction on to the North Atlantic service "British Airways was able to report that the aircraft was making a healthy profit". Yet nowhere does he report that the aircraft were a free gift from the taxpayer to British Airways for which the latter declined to pay a penny of purchase price. Nor did that exhaust the public subsidy of this operation: as the select committee on industry and trade recorded in its report on the Concorde in April 1981, there was continuing project support from public funds, which the Department of Trade and Industry then expected to amount to about £123m between 1980-1985. Against this the provision for BA to repay part of its operating surplus to the government permitted even this to be offset by earlier operating losses, and certain "post-review capital expenditure".

Unless it is seriously suggested that the taxpayer should again pay huge sums of public money to subsidise supersonic flight in a new generation of aircraft, nobody should be misled into making false judgments about commercial viability based on Concorde experience.

Another omission from the article is the cost to other airlines of Concorde being given priority passage through a "stack" in which less privileged aircraft are forced to keep their passengers waiting to land because Concorde has such alarming fuel flows at low speed and altitude.

The prospect of greatly extending the nuisance, and very possibly structural damage, caused by secondary shock waves from Concorde also needs to be faced before any investment in further supersonic aircraft development takes place.

Robin Maxwell-Hyslop,
The White House,
4 Tiverton Road,
Silverton,
Exeter EX5 4JQ

OBSERVER

Perks for EC pensioners

■ The removal of Germany's capital from Bonn to Berlin is causing awful soul-searching in the political establishment, not to mention among the good property owners along the banks of the Rhine. So it's nice to hear of some people who stand to do rather well out of it – for doing nothing.

The European Commission, bless its boots, has decided that it must recalculate the "central co-efficient" according to which its employees in Germany get their salaries calculated, and ex-Commission pensioners their pensions. Instead of using Bonn's cost of living for the central figure, it will now use Berlin.

Of course, Berlin is a rather more expensive place to live in than Bonn. If Brussels is rated at 100, Berlin stands on 104, and Bonn on a modest 96. Any suggestion that every EC official in Germany is suddenly going to get a fat pay rise is roundly denied. Berlin, Bonn and the research centre in Karlsruhe all have their own specific co-efficients, to which salaries in each place are tailored accordingly. However, that leaves all the EC pensioners in Germany, whose salaries are tied to the "central" co-efficient.

So for them, a nice little windfall of almost 10 per cent, assuming the Council of Ministers approves the juggling.

Power points

■ There is much in the newly-published Questions of Procedure for Ministers to cause pain to those with their feet on the first rungs of the ministerial ladder.

The publication of the fact that permanent secretaries have authority to ignore their junior ministers does little for the self-esteem of Westminster's rising stars.

But the section that has caused real anguish in the Commons tea-room is the instruction to ministers to restrict their foreign travel. It then adds insult to serious injury by telling them if they must go abroad on official business they should do so at weekends – and keep a fully-itemised account of their expenses.

Bush telegraph

■ George Bush is not exactly on a winning streak at the moment. But if he continues to get things wrong he might serve as a useful negative index for economic pundits.

On Monday he gave a speech to America's house-builders and praised them for leading the economy out of recession. Yesterday morning it was announced new home sales had dropped alarmingly in April. His next speaking engagement, later yesterday, was to the association of retailers. It would be advisable, therefore, to watch the next retail sales report on June 11.

Frost frozen

■ Whatever one thinks about the relative merits of British and US TV, when it comes to serious current affairs programmes on Sunday morning, the US wins hands down. Whether it's CBS's Face the Nation, NBC's Meet the Press, or ABC's This Week with David Brinkley, most of the political issues of the week generally get a good airing before Sunday lunchtime.

In Britain, the early Sunday morning current affairs field has been left very much to David Frost, television interviewer of the rich and

"If you play the game, make the rules"

powerful. However, his eight-year-old Frost on Sunday programme ends in December. GMTV, which has won the breakfast TV franchise, doesn't think that his 1.4m audience is big enough.

Instead, Liz Howell, the GMTV director of programmes who has pulled the plug on Frost, says she wants "a leisure show about the family".

Frost is not the only casualty. Business news is going to be scaled back drastically, and entertainer Jeremy Beadle will be running a quiz. As for Frost, his best chance of staging a comeback lies with TV-am's planned bid for the Channel 5 franchise. But that is unlikely to be on the air before the end of 1994.

Own goal

■ What on earth is happening to Professor Sir Roland Smith? Ever since he lost his job as chairman of British Aerospace last autumn, he has been shedding his outside directorships. But he is now said to be contemplating stepping down as chairman of his beloved Manchester United.

The Prof, who not so long ago sat on the boards of more public companies than anyone, told an American Chamber of Commerce lunch yesterday that he is "unlikely to remain chairman of Manchester United". However, before he can quit the United directors' bench he has to get the nod of approval from the court of directors of the Bank of England on which he sits.

He says that it's the first time such a "mundane point" has ever been considered by the court. Perhaps it is. But Sir Roland would have gone up in Observer's estimation considerably if he had announced that he was handing in his notice at the Bank of England and devoting more time to United. He would have to attend far fewer board meetings, Old Trafford is much closer to his home, and its financial affairs would benefit from his continued attention.

Yesterday's men

■ Such has been the decline of Britain's trade union movement that it is no surprise that the majority of trade union leaders are not recognised by the average punter. But affairs have come to a pretty low ebb when the front page picture in the workers' Morning Star newspaper labels John Edmonds, general secretary of the 900,00 strong GMB, Britain's second biggest union, as Alan Tuffin, general secretary of the 200,000-strong Union of Communication Workers.

Second thoughts

■ Husband to wife: "What would you like for your birthday?"

Wife: "How about a divorce?"

Husband: "I wasn't thinking of spending that much."

FINANCIAL TIMES
Wednesday May 20 1992

UK shifts focus to stable prices

By Peter Norman and Emma Tucker in London

THE BRITISH government and the Bank of England yesterday refocused their economic strategy on the need to combat inflation amid signs that the country's longest recession since the 1940s is coming to an end.

Mr Norman Lamont, chancellor of the exchequer, told the annual dinner of the Confederation of British Industry that Britain should aim to match Japan's inflation performance, which is "very close to price stability", if it wants to be "a first rank commercial power".

His theme was echoed in the latest Bank of England quarterly bulletin, which yesterday warned that there was "no room for complacency" about the UK's inflation performance. The Bank urged the government to take "firm control of public expenditure" as part of a strategy for price stability.

The warnings came as the government disclosed that manufacturing output grew by 0.3 per cent in the first quarter of 1992, compared with the previous quarter. The increase came after six quarters of falling output. However, overall industrial production, consisting of manufacturing and energy output, fell by 1 per cent in the latest quarter, dragged down by a sharp drop in energy production during the mild winter.

The decline in overall industrial production suggests first quarter non-oil gross domestic product figures to be published on Friday will show a fall for the seventh successive quarter.

Mr Lamont said sterling's entry into the exchange rate mechanism of the European Monetary System required a "sea change in attitudes to inflation". Devaluation was no longer an option, so excessive pay increases would "translate directly into a loss of competitiveness and hence of market share, profits and jobs".

Mr Lamont said the government was firmly committed to meeting the strict convergence criteria of the Maastricht treaty on economic and monetary union. That would mean firm budget discipline, membership of the narrow bands of the ERM and bringing UK inflation and interest rates "in line with the best in Europe".

But he appeared to damp down expectations that UK interest rates might fall below those in Germany. "Those who argue that we could have had lower interest rates outside the ERM seem conveniently to forget that only for four months in the 1960s did the UK have lower interest rates than Germany," he said. "I would caution people against underestimating the resilience of the German economy. Reports of Germany's industrial demise are greatly exaggerated," he added.

But the Bank of England is giving thought to the theoretical possibility of UK rates falling below German levels.

Details, Page 8

US housing starts fall by 17% in April

By Michael Prowse in Washington

THE BIGGEST monthly drop in US housing starts for more than eight years prompted renewed speculation yesterday that the Federal Reserve might soon signal another cut in interest rates.

Housing starts fell by 17 per cent in April, a far bigger decline than most analysts had expected.

The figures were released by the Commerce Department as governors and regional presidents of the Federal Reserve, the central bank, met in Washington to review monetary policy.

On Wall Street the benchmark long bond closed more than half a point up on the news, signalling traders' hopes of an interest rate cut.

The drop in starts was broadly based, affecting all regions of the country and all categories of residential property.

Following other warning signals, including a decline in new home sales, the drop seems to indicate a loss of momentum in residential housing, one of the few sectors of the economy to rebound strongly from recession.

The consensus view is that the economy is growing sluggishly, at an annual rate of 2-3 per cent. However, the setback in housing is likely to fuel apprehension about the pace and sustainability of recovery. Car sales – another critical barometer – remain subdued, while claims for unemployment insurance are well above levels normal in a recovery.

Wall Street analysts have been predicting an easing of monetary policy for several weeks. If the Fed decides to act, the likeliest move is a ¼-point cut in the federal funds rate to 3.5 per cent, the floor set by the current level of the discount rate, at which the Fed lends to banks. This would trigger a ½-point cut in banks' prime lending rates to 6 per cent.

The Fed is under political pressure to ease monetary policy because monetary growth is barely above the lower limit of its 2.5-6.5 per cent target range. However, it may decide that lower rates would only increase fears of higher inflation, putting upward pressure on bond yields and mortgage rates.

Housing starts in April were running at an annual rate of 1.1m, the lowest level since November. However, they were 14 per cent higher than last April, reflecting the strong housing recovery last year.

Treasuries advance, Page 22
Dollar drops, Page 36

Motorcyclists and demonstrators face Thai navy troops blocking the road to Bangkok at a bridge over the Chao Phya river

Thai protesters defy military crackdown

Continued from Page 1

the time of anti-government student demonstrations in 1973.

The academics also suggested thut Gen Prem Tinsulanonda, prime minister from 1980 to 1988, should return to the post, and that constitutional amendments to reduce the power of the military should be passed within three weeks, but that parliament should not be dissolved.

Many shops, offices and banks reopened in the capital but hurriedly closed again at midday as rumours of looting and violence swept through the city. One hotel boarded up its windows.

"There's quite a lot of panic in commercial circles," said one foreign banker. "There's going to be very little commerce tomorrow."

Some bank branches ran out of cash and queues grew at automatic telling machines and petrol stations. By evening, normally a time of acute traffic congestion, Bangkok's streets were almost deserted. Soldiers, harried by small groups of youths in the city centre, set up roadblocks and searched motorcyclists, who have been at the forefront of some of the rioting.

On the stock market the SET index fell by nearly 9 per cent to close at 667.84, down 65.05, its largest daily fall. Some flights into Bangkok were cancelled.

Spain ties EC enlargement to speedy help for poorer states

By David Marsh and Peter Bruce in Madrid

SPAIN will withhold co-operation on enlarging the European Community unless there is speedy agreement to operate a new EC mechanism for channelling resources to poorer countries.

Mr Carlos Westendorp, minister for European affairs, told the Financial Times yesterday that Spain wanted the Community's new "cohesion fund", agreed at Maastricht five months ago, to come into effect at the start of next year.

He also served notice that Britain's £2bn ($3.7bn) a year rebate from the Community, agreed in 1984 to compensate for undue financial burdens caused by the Common Agricultural Policy, will probably have to be renegotiated.

Germany has already cast a cloud over Britain's presidency of the Community in the second half of this year by suggesting that the rebate will have to be cut to help improve EC finances.

The cohesion fund will represent an important source of funding for Spain's overall efforts to improve its economic structure in preparation for economic and monetary union later in the decade.

The fund, as proposed by Mr Jacques Delors, European Commission president, would channel Ecu2bn ($2.6bn) a year to Spain, Portugal, Greece and Ireland by the end of 1997.

Spain is insisting that the EC settle the financial details of the Maastricht process before negotiations on widening the Community can begin. This means the 12 members will have to clinch an accord on the cohesion fund at the Edinburgh summit in early December. Germany and Britain have expressed scepticism whether the fund needs to be operating before the end of 1993.

Mr Westendorp warned that, unless agreement was reached, Spain would be "less co-operative in other operations" – above all, concerning the plans for Sweden, Austria and Finland to start EC entry negotiations next year. "We cannot start thinking of widening the Community until we have finalised Maastricht."

Mr Delors' proposals, put forward in February, for increasing the EC budget by Ecu21bn up to 1997 have drawn sharp criticism from Britain, Germany and some other partners. Roughly half the extra funds would go to the four poorer EC members, both through the cohesion fund and through an enlargement of the existing structural fund for economic development.

Serb trial for Croats

Continued from Page 1

The official media spew a steady stream of racist propaganda about non-Serbs.

A western diplomat said: "We are not questioning the right of Serbia to try war criminals if it is based on real evidence. But there is also a legal and moral responsibility to try criminals from their own side."

Mrs Danilovic says the trial may mark the beginning of a wave of show trials. She says the defendants are being tried for heinous war crimes, although Yugoslavia was never officially at war with Croatia.

But if a wave of trials begins in Serbia, it is likely to be matched in Croatia, where resentment of the perceived seizure of its territory by Serbia, runs high. Serbs living in Zagreb, the capital of Croatia, have expressed fears that the government will use them as scapegoats.

World Weather

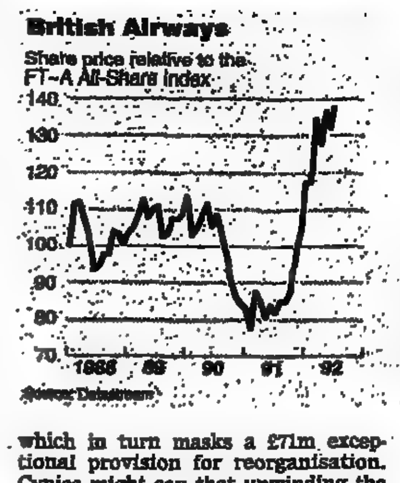
		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	S	25	77	Frankfurt	S	22	72	Majorca	S	25	77	Oporto	S	16	61	Tenerife	S	24	75
				Brussels	S	21	70	Geneva	S	20	68	Malaga	F	25	77	Oslo	S	22	72	Tokyo	F	23	73
				Budapest	F	19	66	Gibraltar	R	21	70	Malta	S	21	70	Paris	S	23	73	Toronto †	S	9	48
Ajaccio	T	18	64	Buenos Aires	F	14	57	Glasgow	F	17	63	Manila	C	36	97	Prague	F	18	64	Tunis	T	21	70
Algiers	S	27	81	Cairo	S	25	77	Helsinki	S	19	66	Melbourne	C	13	55	Reykjavik	C	10	50	Valencia	S	27	81
Amsterdam	S	23	73	Cape Town	F	18	64	Hong Kong	F	24	75	Mexico City	C	23	73	Rhodes	S	21	70	Venice	S	19	66
Athens	S	22	72	Caracas	C	30	86	Innsbruck	S	19	66	Miami †	S	25	77	Rio de Janeiro	R	28	82	Vienna	S	18	64
Bahrain	S	34	93	Casablanca †	S	33	91	Inverness	S	17	63	[illegible]	C	19	66	Rome	F	21	70	Warsaw	F	20	68
Bangkok	F	36	97	Chicago †		–	–	Islamabad	C	33	91	Montreal †	S	11	52	Salzburg	S	17	63	Washington †	C	18	64
Barcelona	S	22	72	Cologne	S	23	73	Istanbul	S	21	70	Moscow	C	16	61	S Francisco †	F	15	59	Zurich	S	20	68
Beijing	C	29	84	Copenhagen	F	16	61	Jakarta	R	32	90	Munich	S	18	64	Seoul	S	23	73				
Beirut	F	20	68	[illegible]	F	19	66	Johannesburg	S	22	72	Nairobi	C	22	72	Singapore	S	33	91				
Belfast	S	15	59	Dallas †		–	–	Lisbon	S	24	75	Naples	F	21	70	Stockholm	S	26	79				
Belgrade		–	–	Dublin	S	18	64	London	S	24	75	Nassau	C	28	82	Strasbourg	S	24	75				
Berlin	S	20	68	Dubrovnik		–	–	Los Angeles †	C	18	64	New Delhi		–	–	Sydney	S	18	64				
Biarritz	S	15	59	Edinburgh	S	14	57	Luxembourg	S	21	70	New York †	S	14	57	Taipei	C	24	75				
Bombay	F	32	90	Faro	S	27	81	Madeira	C	20	68	Nice	F	17	63	Tangier	F	25	77				
Bordeaux	S	23	73	Florence	C	20	68	Madrid	S	28	82	Nicosia	S	20	68	Tel Aviv	F	21	70				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloud, Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

THE LEX COLUMN

BA flies high

FT-SE Index: 2700.6 (-3.0)



Lord King plays hard to get when it comes to possible airline alliances. But the stock market is showing no such reticence in its increasingly passionate love affair with British Airways. BA's shares have outperformed by more than 55 per cent over the last nine months, and predictably took off again yesterday on the back of better-than-expected fourth-quarter passenger yields and a 20 per cent jump in the final dividend.

Given the dreadful industry background – and the dismal performance of most of its international competitors – the City is certainly right to applaud the company's navigational skill. The danger, however, is in getting carried away. The argument of the bulls is simple enough: if this is what BA can do in a recession, what is it capable of when recovery gets under way, and increased passenger volumes combine with a slimmed-down cost base to transform the bottom line?

BA is operationally geared, to be sure, but it is important to remember that growth markets will also be increasingly competitive markets. The signs are already there over the North Atlantic, as reflected by the fall from more than 60 per cent in 1990 to 35 per cent last year in the contribution to operating surplus from the Americas. The immediate threat from American Airlines and United has been headed off, but BA for one is not under any illusion that this state of affairs will last. Europe looks set for renewed turbulence after next year's third phase of liberalisation. While BA should end a winner the impact of independents picking off its most profitable routes should not be discounted.

There is also the question of the company's medium-term financing needs. Cash flow and existing loan facilities should be sufficient to fund the aircraft purchase programme for at least a couple of years. But BA could well come back to shareholders when Lord King finally leads an airline partner to the altar.

Allied-Lyons

Yesterday's annual figures from Allied-Lyons are very much the product of the company's recent turbulent history. On the surface, pre-tax profits after property disposals rose 28 per cent. But if the 1990-91 comparative figure is adjusted for that year's currency-trading loss, profits would actually have fallen by 2 per cent. Moreover, the 1991-92 result is flattered by a £61m credit from sales of businesses which in turn masks a £71m exceptional provision for reorganisation. Cynics might say that unwinding the provision will reduce the quality of earnings in future years. Such a view took the upper hand in the market yesterday, as the shares were marked down by just over 1 per cent.

All the same, the underlying picture is not bad for a recession year. Trading profit, struck before the exceptional items and property disposals, was up by nearly 4 per cent. Hiram Walker is producing impressive growth in Spain and Japan, while the continuing food businesses were up by a healthy 11 per cent. As the new management tightens its grip there should be less reason for Allied-Lyons to trade at a discount to the likes of Guinness and Grand Metropolitan. Its growth could even be faster because it has some catching up to do.

First, however, it must settle its differences with the competition authorities. Though Allied-Lyons claims to have reached an accommodation with the Office of Fair Trading on its pub-licensing deal with Brent Walker, it is cagey about the details and about how much it will have to water down the accompanying supply agreement. More important to the market is the fate of its joint venture with Carlsberg. Though probably over-rated in terms of its long-term significance, this will hang over the price until the government reaches its decision later in the summer.

TI/Dowty

Dowty has so little ammunition with which to defend itself against TI that a sparkling profits estimate for the financial year which ended in March was almost inevitable. The company appears to have reaped an early harvest from its reorganisation efforts and to have benefited from a spurt in demand during the final quarter. The trouble is that there is not much flesh on the bones. It is difficult to see where its estimate leaves the outlook for the current year, especially since there is not much sign of recovery elsewhere in the sector.

Admittedly, there is some justification to Dowty's arguments about the lack of TI's industrial fit. But TI looks likely to be a more determined seller of the electronics and information technology business, and it has an underwritten offer of 175p on the table. Small wonder the market behaves as if it expects TI to win.

Yorkshire Water

The joint venture between Yorkshire Water and Babcock looks a neat solution to two long-term problems for the UK water industry. Other companies, notably Thames and North West, have already seen the logic of developing their engineering skills into separate operations. Their wholly-owned ventures and Yorkshire's more elegant example mark a logical progression in the water sector's diversification away from business regulated by Ofwat. In contrast to earlier deals in which water companies were inveigled into the mysteries of waste management, Yorkshire is investing in an area where its experience is not in question.

The venture has an additional attraction. Water companies' huge investment programmes are spread between treatment plants and underground pipes. At present, more money is being spent on plants; by the middle of the decade, the companies will generally be investing more in pipes. The question is what to do with the hundreds of plant process engineers who will no longer be needed.

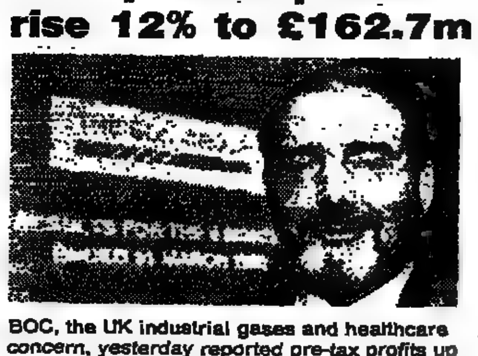
Yorkshire's answer has been to bring in a specialist engineering partner at once. The joint venture is unlikely to make much money for a year or two. But by the time Yorkshire would otherwise be expensively laying off staff, they should instead be making profits selling services and project skills in the UK and abroad. As for Babcock, the deal represents a timely return to a business which FKI sold off to Biwater four years ago. Doubtless other engineering groups will try to follow suit.

هكذا صحف الاحتلال

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday May 20 1992

INSIDE

BOC pre-tax profits rise 12% to £162.7m



BOC, the UK industrial gases and healthcare concern, yesterday reported pre-tax profits up 12 per cent to £162.7m ($299m) for the six months to 31 March. Mr Pat Rich (above), chairman and chief executive, said most markets failed to show signs of recovery and warned that some areas such as Japan were experiencing a slow-down in growth rates. Page 25

To err is human ...

Bic, the French company best known for its disposable pens, is buying Wite-Out, a US group which produces corrective fluids for blotting out mistakes. Page 21

Airline shake-up on the runway

Fokker, the Dutch aircraft manufacturer, is at the centre of an effort to rationalise the European regional airliner industry. The driving force for the move appears to the success achieved by the European Airbus consortium in the large airliner business. Page 18

Oil exporters' seek increase

Ministers from the Organisation of Petroleum Exporting Countries gathered in Vienna look likely to reach a production agreement for the third quarter based on deferring hard choices which, with luck, may have evaporated tomorrow. Page 28

Babcock in water venture

Yorkshire Water and Babcock International yesterday unveiled a joint venture aimed at tackling engineering opportunities in the rapidly-changing global water industry. Page 24

Thai market plummets

Share prices suffered record falls on the Bangkok stock market yesterday, the first day of trading since the military crushed protests against the appointment of General Suchinda Kraprayoon as a non-elected prime minister. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)

Rises			
DLW	575	+	7
Degussa	361	+	7
Lahmeyer	797	+	11
Walla Pri	612	+	12
Falls			
Douglas	641	–	8
Porsche	490	–	15

NEW YORK ($)

Rises			
Br Airways ADR	55⅛	+	3
Dayton Hudson	60¾	+	1⅜
Mesa Air	24¼	+	1⅞
Polaroid	26¾	+	1⅛
S Carolina Fed	20½	+	2¼
Upjohn	35⅜	+	⅞

New York prices at 12.30.

PARIS (FFr)

Rises			
Eurocom	704	+	17
Gaumont	597	+	25
Skis Rossignol	710	+	18
Falls			
Ard Entrepr	532	–	57
Bancaire Cle	466	–	17
L'Oreal	887	–	13

TOKYO (Yen)

Rises			
Sanoh Ind	825	+	100
Shin-Etsu Poly	559	+	80
Showa Denko	340	+	40
[illegible] Mfg	700	+	75
Sumitomo Spl	1080	+	100
Terumo	970	+	100

LONDON (Pence)

Rises			
Amstrad	40½	+	3½
Barclays	397	+	10
Berry, Birch	100	+	5
Bilston B'sea	48	+	7
Birkdale	55	+	11
Bristol Water	680	+	32
Brit Airways	302	+	15
Expl Co Louis	66	+	9
Jarvis Porter	147	+	11
Leeds	408	+	14
Lookers	128	+	12
Monarch Res	80	+	7
Next	88½	+	4½
Riva	23	+	7
Stand'd Platina	84	+	15
Tunstall	270	+	25
Falls			
Body Shop	308	–	12
Capital Radio	210	–	15
Essex Furn	52	–	4
Kunick	6¼	–	3
Lasmo	186	–	18
Ocean	311	–	27
Wellcome	984	–	21
Young (H)	60	–	5

Daimler-Benz sees excellent result

By Andrew Fisher in Stuttgart

DAIMLER-BENZ, the German motor, aerospace and electronics group, expects an "excellent result" this year after a strong performance in the first quarter, Mr Edzard Reuter, the chief executive, said yesterday.

Net profits in the first three months were 14 per cent higher at DM480m ($291m), with turnover gaining 16 per cent to DM22bn. Business growth was faster abroad than at home. For the full year, he said turnover would total around DM100bn compared with DM95bn last year, a rise of 11 per cent on 1990.

The group's figures for 1991 show that Mercedes-Benz, the car and truck subsidiary, remains the chief profit earner for the group, in spite of the costly diversifications of the 1980s. Mercedes' net profits totalled DM1.5bn, roughly the same as last year.

One company into which Daimler diversified, the AEG electrical and electronics company, turned in a sharply higher loss of DM624m against DM205m the previous year. This resulted from the DM1bn cost of closing the heavily loss-making Olympia office equipment division, partly offset by a DM490m gain on the sale of its cable activities.

Daimler has already announced an 8 per cent rise in group net income to DM1.9bn – because of inter-company accounting, this figure is not comparable with divisional results – and its first dividend increase since 1986 with a payment of DM13, up from DM12. Earnings per share increased from DM36.20 to DM40.20. Pre-tax income was 5 per cent lower at DM4bn, however, the net result benefiting from a sharp drop in the tax bill; for the first time, the group was able to offset losses at AEG and Dornier (part of its aerospace operation) against tax.

Mr Gerhard Liener, finance director, said Mercedes' share of total profits was higher than its 69 per cent of turnover last year. In the first quarter, Mercedes' sales advanced 17 per cent to DM17.1bn, most of the growth coming from foreign markets, especially in western Europe. Waiting time for the new S-class executive model is nine months.

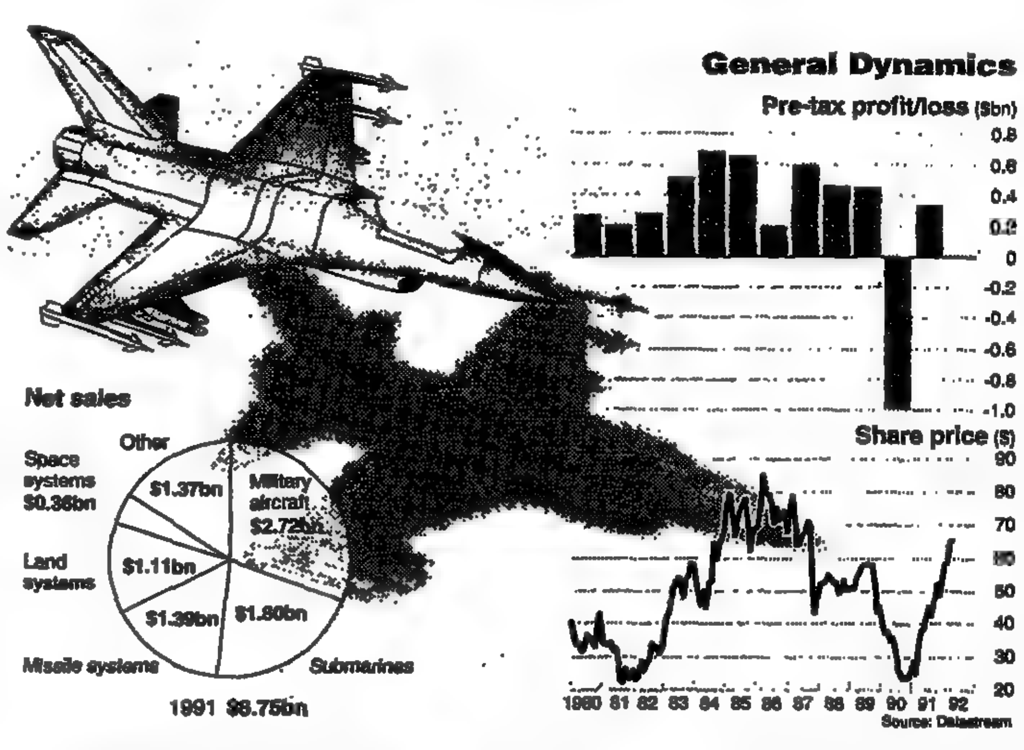
While relieved that an engineering strike had been averted, he said the settlement would result in an "excessive wage burden". Daimler has already embarked on a streamlining programme to squeeze DM4bn a year from total costs by 1995. Mr Reuter said around DM2bn of this had been achieved.

He said internal operating profits should double this year. This would largely reflect the rationalisation moves. However, Daimler will also benefit from the elimination of AEG's losses.

Volvo and Renault results, Page 20

Slimming to fit a shrinking business

While many US defence groups branch into commercial areas, General Dynamics is holding an auction, writes Martin Dickson



You are the chairman of a company in an industry doomed to decline. What is your best strategy?

"Consolidate the sector and diversify into new businesses," is the answer given by many businessmen. Tobacco companies, for example, anticipating a shrinking US market, have branched out into areas such as food, drink, retailing and financial services.

Now the US defence industry is taking a similar route. Faced with contracting Pentagon equipment spending, companies have been pushing into commercial businesses, ranging from environmental services to airport management.

Except for General Dynamics. The second largest US defence contractor is auctioning off its commercial operations. It recently clinched a deal to sell its missiles division to Hughes Aircraft for at least $450m.

What is under way is a "quasi liquidation" of General Dynamics, in the words of Mr Cai von Rumohr, securities analyst with Cowen & Co. Mr William Anders, former air force pilot and astronaut who took over as chairman at the start of last year, calls it a "plan of contraction".

The commercial businesses on the block, which account for about $1bn of the company's $8.7bn of annual revenues, include a subsidiary making civil aircraft fuselages, a manufacturer of avionics test equipment, and a construction materials division. And this comes on top of the sale earlier this year of Cessna, its profitable business jet subsidiary, to Textron for $600m.

This is the outcome of an examination of General Dynamics's strategy by Mr Anders. After toying with the idea of diversification, he has plumped for the opposite policy: slimming the company down to four core defence businesses.

These are tactical military aircraft, where it makes the popular F-16 and is co-developer of the US's F-22 advanced tactical fighter; nuclear submarines; armoured vehicles, with the M1 Abrams battle tank; and a space launch business.

The thinking behind this has two elements. The first is Mr Anders's recognition that the contracting Pentagon budget has left the US defence industry with "massive overcapacity" which needs to be rationalised.

General Dynamics is concentrating on the four core businesses and buying assets to reinforce their "critical mass" or selling peripheral defence operations to bolster the strengths of rival companies.

The missiles agreement with Hughes fits into the latter category. General Dynamics is getting out of a commodity product where it faced tough competition from other suppliers.

The second element in his thinking – that diversification simply does not work – is more controversial. Mr Anders says two independent studies have found that the diversification failure rate among defence companies is "unacceptably high". Diversification would therefore be too risky, especially when General Dynamics is trying to sort out the challenges facing its defence operations. Far better, he says, to sell off its existing commercial businesses and return much of this money to shareholders. Investors should "have the opportunity to make their own individual decisions regarding commercial diversification".

The shock treatment involves shaking up the four core businesses. General Dynamics over the past 18 months has seen a sharp reversal of its declining profit margins as Mr Anders has improved productivity, slashed the workforce and sought to eliminate bureaucratic complacency.

Some analysts fear Mr Anders's pruning may be too severe, while he prompted almost universal condemnation last year – including the ire of the Pentagon – with a compensation package which awarded top managers huge cash bonuses for very short term increases in the share price.

The aim, he claimed, was to align "employee interests" more closely with those of shareholders. But critics saw it as an incentive for a handful of executives to grow rich by shrinking the business and firing colleagues. So great was the opposition that the plan was watered down to a more conventional share option scheme – but not before Mr Anders and 24 senior colleagues benefited to the tune of more than $20m from the company's contraction.

Still, investors have also profited from Mr Anders's strategy. The company's share price has rocketed from $25¼ at the start of 1991 to around $63 now, thanks to the tighter management controls, disposal programme and promise of a large payout to shareholders. The quarterly dividend has also been boosted from 25 cents a share to 40 cents – the first change since 1984.

General Dynamics is now sitting on $1.2bn in cash and marketable securities and this will grow as the missiles division and other assets are sold off.

The company will need some of this to lower its debt, for research and development and to cover any potential liability from a dispute with the Pentagon over last year's cancellation of the A-12 aircraft programme.

Mr von Rumohr says the company's free cash by the end of next year could amount to $53 to $64 a share, while the company's remaining "core" operations could bring the total value to between $79 and $97. Much depends on the prices the company gets from its disposals. Already the missiles sale looks like raising more than some analysts expected.

So while Mr Anders's basic strategy is as clear as a flight path while many rivals still seem to be groping for a map, it is also likely to produce interesting acrobatics along the way.

Banks set Eurotunnel deadline for dispute

By Robert Peston in London

BANKERS to Eurotunnel are threatening to withdraw its funding unless the Channel tunnel company reaches a settlement of its longstanding dispute with its building contractors by August.

The banks have told Eurotunnel that it must have reached agreement with Transmanche Link, the Anglo-French building consortium, by the time it has spent another £500m ($920m) on the project. Eurotunnel is likely to have used this money by late July or August.

Eurotunnel is in breach of its covenants and needs to persuade 65 per cent of its bank lenders to waive the relevant covenant by May 29 if it is to continue drawing on loan facilities. As a condition of granting the waiver – which they expect to give – bankers have set the deadline for reaching agreement with TML.

It is understood that Sir Alastair Morton, one of the company's joint chairmen, has told bankers that it regards the deadline as "wholly unrealistic". However, Eurotunnel yesterday refused to make any comment.

Eurotunnel has told the banks that there is little chance of being able to assess the vast amount of financial information relevant to the dispute in the time.

Eurotunnel is also concerned that any possible settlement with TML would lead to a change in the basis of the construction contract.

This in turn would need the approval of 90 per cent of its 220 banks as measured by the value of their loans – and Eurotunnel is fearful that it would be impossible to get such a majority vote.

In other words, Eurotunnel fears that the banks are creating a potentially disastrous financial crisis for the company. Some bankers share this view. However, one of the leading lenders to the group insisted that the deadline for the deal with TML was "flexible".

The dispute with TML is over responsibility for cost overruns. TML is claiming about £1.5bn at 1985 prices for this lump sum contract which was originally expected to cost £620m. Eurotunnel has offered to pay £1bn, leaving a gap of about £500m.

The company has credit facilities of around £8bn, but the main lending facility from commercial banks is for £6.8bn. Of this commercial line, Eurotunnel has already drawn £4bn.

O&Y tells Water Street investors they face big loss

By Bernard Simon in Toronto and Robert Peston in London

OLYMPIA & YORK yesterday told holders of securities in its 55 Water Street property, the world's largest office building in New York, that they faced huge losses on their investment but could not rely on O&Y to bail them out.

In a separate development, a UK government minister said no decision on whether to move civil servants to O&Y's Canary Wharf office development in East London was likely to be taken before the deadline faced by banks on whether to force Canary Wharf to file for insolvency protection.

At a two-hour meeting in New York, O&Y told holders of US$548m in two series of notes secured by the 53-storey, 3.6m sq ft building in New York that the slump in the Manhattan property market meant cash flow from the building would be insufficient to service the property's debt from next year.

It told them that by 1994, cash flow generated by the building would have fallen to $5.2m, as tenants moved out, compared with interest payments on the bonds of $35.9m.

The Water Street property is one of several buildings in the US which O&Y has financed through single-purpose companies with no recourse to the parent.

Bondholders were initially confident this structure would protect them from O&Y's financial problems.

But, in a pattern likely to be repeated, O&Y warned Water Street bondholders yesterday they would have to rely on their own resources to make improvements to the building which are necessary to attract new tenants and service the debt.

O&Y estimated improvements needed to attract new tenants could cost $100-$200m over the next five years. About 40 per cent of the building is expected to be vacant by mid-1993.

Meanwhile a UK government minister said it would take "several weeks" for a decision to be made on whether 2,000 Department of the Environment civil servants should move to Canary Wharf or a separate Docklands property.

Bankers had been hoping for an earlier decision. They must decide by the end of May whether Canary Wharf should be kept as a going concern, because that is when it runs out of cash. Their decision hinges in part on whether they believe the Government will take space at a commercial rate.

The DoE is looking at a number of docklands sites. The front-runners are Canary Wharf, which has offered the space at £15 a square foot, and Harbour Exchange, which is offering it at £13.

The Department of Transport is even further away from a decision on whether to move 1,000 of its civil servants to Canary Wharf, as is the Department of Trade and Industry, which is looking for space for 350 officials.

In the US, O&Y's request to the Water Street bondholders appears to signal the start of a series of negotiations to allow O&Y to continue operating its US properties without court protection.

O&Y excluded its US operations from last week's court order giving it protection from its creditors in Canada.

BA shares jump after 119% rise in profits

By Paul Betts, Aerospace Correspondent, in London

BRITISH AIRWAYS, the UK international carrier, has staged a strong recovery from the worst slump in civil aviation with pre-tax profits more than doubling in the year to March 31. The 119 per cent increase in pre-tax profits to £285m ($524m) from £130m the previous year sent BA shares 5 per cent higher yesterday.

The company broke even in the fourth quarter compared with a £210m loss the year before which included £120m in exceptional restructuring charges.

The shares rose 15p yesterday to close at 302p in London. The company is increasing the final dividend to 7.24p, 10.18p for the full year, a rise of 15 per cent.

Lord King, chairman, said the performance was "highly creditable" given the impact of the recession and the Gulf crisis on airline travel.

He said BA was in no hurry to forge a partnership with another airline but emphasised he remained committed to the concept of a global airline. "Finding a right partner remains high on the agenda," he said. Merger negotiations between BA and KLM Royal Dutch Airlines collapsed in February.

Profits after tax rose 168 per cent to £255m, equivalent to earnings of 35.3p a share against 13.2p last year. There was also an additional £140m after tax extraordinary gain from the sale of BA's engine overhaul business to General Electric of the US.

Turnover rose 5.8 per cent to £5.2bn and BA's passenger traffic was up 1.8 per cent.

Lex, Page 16; Background, Page 27

AMB wins court ruling on Assurances Générales stake

By David Waller in Frankfurt

AACHENER & Münchener Beteiligungs (AMB), Germany's second largest insurance company, has won an important courtroom victory over the status of the large minority stake in the company held by Assurances Générales de France (AGF), the state-owned French insurer.

The Regional Court of Aachen decided the Vorstand – or managing board – of AMB was within its rights not to register the voting rights attached to 19 per cent of AMB out of the 25 per cent-plus owned by AGF. Under German company law, the right to accord voting rights on special types of registered shares belongs to the incumbent management.

The French company said it disagreed with the ruling, and would continue attempts to have the shares registered. It maintains that its intentions towards AMB are friendly.

The AMB Vorstand, however, believes AGF to be making a scarcely-veiled attempt to win management control.

AGF argued before the court that AMB's tactics were frustrating its own European development strategy, namely closer alliance with Fondiaria, the leading Italian insurance group which now owns 20 per cent of AMB, and with Royal Insurance of the UK.

According to Mr Piers von Simson, a director of S.G. Warburg, the London investment bank advising the AMB Vorstand, the court's decision would put pressure on AGF to enter further talks over co-operation. Earlier attempts stalled over the question of registering the shares.

"We are now at the stage where we ought to able to explore whether there is a genuine basis for commercial co-operation," he said yesterday.

AMB said the court had totally rejected AGF's claim that the decision to register the shares' voting rights was against the company's interest.

Adidas slips to DM44m pre-tax

By David Waller

PRE-TAX profits at Adidas, the German sports shoe company, fell sharply last year, reflecting difficult conditions in the sportswear market – in particular stiff competition from Reebok and Nike – as well as the costs of continued restructuring.

The group is controlled by Mr Bernard Tapie, who last month was appointed minister of urban affairs in the French government.

Group pre-tax profits dropped from DM90m ($56.6m) to DM44m last year. Turnover was up just DM11m to DM3.53bn.

The company, based in the Bavarian town of Herzogenaurach, said that last year could be viewed as "as a year of focusing all efforts of the Adidas brand".

Plans to sell off brands such as Pony, Arena and Le Coq Sportif had "neared full completion" in 1991, Adidas said, and further consolidation measures would be taken.

It said that the pre-tax profits result was not satisfactory, but pointed out that excluding extraordinary costs arising because of factory closures and other restructuring measures, net profits were DM73m last year, down from DM85m in the previous year but a considerable improvement on the loss of DM3m incurred in 1989.

The restructuring led to a streamlining of the group's balance sheet, with total assets falling from DM1.73bn at the end of 1990 to DM1.55bn a year later. This reflected the sale of trade names and the closure of subsidiaries and also a reduction in accounts receivables and inventories.

Allied-Lyons ahead in all divisions

By Philip Rawstorne in London

TRADING profits at Allied-Lyons, the UK drinks, food and retailing group, rose 9.6 per cent to £815m ($1.46bn) last year, with strong performances in all its operations.

Taxable profits of £610m compared with the previous year's £476m, when Allied was hit by currency trading losses of £147m.

The group reported yesterday it had reached agreement with the Office of Fair Trading over the leasing of 734 pubs to Brent Walker, the large leisure industries group. Arguments over the terms of the lease had threatened Allied's compliance with government orders requiring it to free 2,380 pubs from tied beer supplies.

Mr Michael Jackaman, chairman, was confident about prospects for the brewing joint venture with Carlsberg, on which the UK Monopolies and Mergers Commission and the European Commission are due to report next month.

Earnings per share during the year to March 7 grew 1.2 per cent to 41 pence, from 40.5p. A final dividend of 13.35p makes a total payment of 20p for the year, up 6.3 per cent.

During a year of extensive operational restructuring, the wines and spirits division lifted margins and raised trading profits 10.2 per cent to £410m.

Ballantine's whisky shipments were 5 per cent ahead, with strong volume gains in Spain consolidating the brand's leading position in Europe. Spanish sales of Beefeater gin reached 500,000 cases for the first time.

Food profits were 11.4 per cent higher at £147m, with the sector's international spread cushioning it against tough trading conditions in the UK.

Pinault sale severs link with origins in timber

By Alice Rawsthorn in Paris

PINAULT, the French company which recently won a controversial bid for the Au Printemps department store chain, is severing its links with its original timber interests by selling the business to Dapta-Mallinjoud, the French do-it-yourself group.

The withdrawal from timber marks the culmination of the strategy pursued by Pinault under the chairmanship of Mr François Pinault. He has transformed his family timber company – founded in Brittany in 1963 – into a large retailing group by a series of audacious acquisitions.

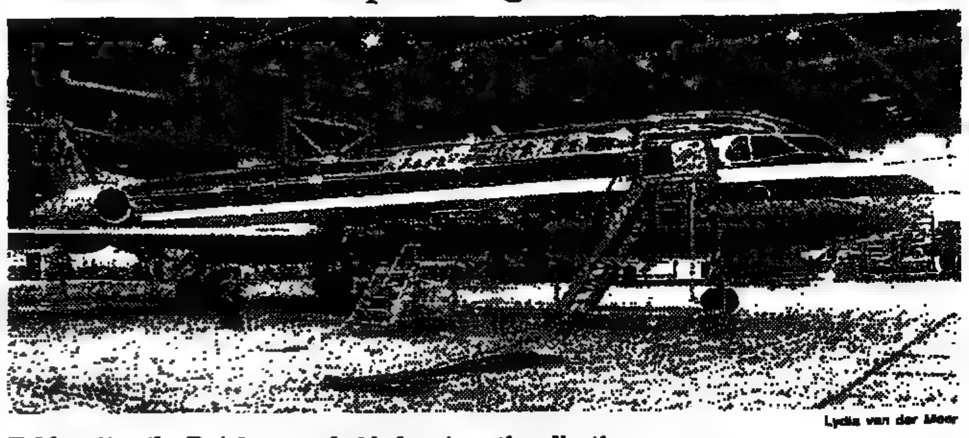
The series of deals, which culminated in the takeover of Au Printemps, one of the most famous names in French retailing, has left Pinault with a hefty burden of debt. The proceeds from the sale of the timber business – for an undisclosed sum – will be used to reduce group borrowings which totalled FFr15.5bn ($2.9bn) at the end of last year.

Pinault has sold a group of companies – including the Lafa furniture businesses and Sofiseb, a kitchen unit manufacturer – with combined sales of FFr1.13bn. Dapta-Mallinjoud, which is quoted on the secondary market in Paris, suspended its shares on Monday pending the announcement of the acquisition. It sees the deal as a way of expanding its original do-it-yourself interests into new product sectors. After the disposal Pinault will be established as a leading player in the French service sector with the Conforama chain of furniture stores as well as Au Printemps. Pinault's total annual turnover is now estimated at about FFr70bn, with distribution providing 80 per cent of that total.

Pinault recently announced that its net profits had halved from FFr1.05bn in 1990 to FFr503m in 1991. That was attributed to a sharp fall in exceptional earnings.

Setting the stage for realignment

Paul Betts on the future of the European regional aircraft industry


Lydia van der Meer

Fokker 100: the Dutch group holds key to rationalisation

Fokker, the Dutch aircraft manufacturer, is at the centre of an effort to rationalise the European regional airliner industry. The driving force behind the move appears to be the success achieved by the European Airbus consortium in the large airliner business.

If a partnership involving Deutsche Aerospace (Dasa), Aerospatiale of France and Alenia of Italy succeeds in acquiring control of Fokker, it could set the stage for a significant realignment of the European regional aircraft business.

It would also put pressure on other manufacturers, including British Aerospace and SAAB of Sweden, to accelerate their efforts to find partners or join forces with the proposed alliance between Dasa, Aerospatiale, Alenia and Fokker.

In contrast with the large airliner industry – dominated by only three companies (Boeing, McDonnell Douglas and Airbus) – the regional and commuter aircraft industry includes at least nine manufacturers competing in a cut-throat market depressed by the financial problems of smaller airlines.

With too much capacity, manufacturers have increasingly sought to rationalise the market through partnerships and other links. Some consolidation has already begun.

Bombardier of Canada absorbed Short Brothers of Northern Ireland and, more recently, de Havilland of Canada, after a bid for the Canadian group by Aerospatiale and Alenia was blocked by the European Commission.

In Europe, Aerospatiale and Alenia have pooled their resources to form the ATR regional turbopropeller aircraft consortium, and they both joined forces with Dasa last year to set up the Regioliner consortium to develop a new family of regional jets.

It is this German-led partnership which is seeking to take control of Fokker. Although Fokker has recovered from its financial crisis of 1987, when the Dutch government stepped in to take a 32 per cent stake, few believe Fokker can survive without partners.

The Dutch government has also made it clear on several occasions that Fokker would need to find an industrial partner if it wanted to develop a new aircraft. It has said it has no objection in principle to foreign interests acquiring control of companies in which it had a stake.

However, the negotiations between Dasa, Fokker and the Dutch authorities are understood to be difficult. Any deal is also likely to face intense scrutiny from the European Commission on the grounds it could give the combined group a dominant position in the market. On the other hand, France and Germany have long argued for an industrial policy in Europe to rationalise the regional airliner business.

What makes the situation even more complex is the intricate web of alliances between various European companies on certain projects while these same companies compete on other market sectors.

Dasa and Aerospatiale are both partners in Airbus, with a 37.9 per cent stake each in the European large airliner consortium. BAe is also an Airbus partner with 20 per cent but is in direct competition with both Dasa and Aerospatiale in the regional aircraft market.

Alenia is an ally of Dasa and Aerospatiale, but it does some subcontracting work for Airbus and is at the same time involved on Boeing and McDonnell Douglas programmes. Its parent company, Finmeccanica, also own 6 per cent of Fokker.

The heavy costs of launching a new aircraft family in a weak market, coupled with Airbus's plans to develop the 125-seat A319 airliner (a shorter derivative of the 150-seat A320), appears to have prompted Dasa to turn its attention on Fokker.

Dasa, which is already co-operating with Fokker on the Fokker 100 jet, clearly saw an opportunity to lead a rationalisation by forging closer links with the Dutch group.

Fokker has been working on plans to develop a smaller 70-seat version of the Fokker 100 and eventually a larger 120 to 130-seat derivative. Both aircraft would be direct competitors to the original Dasa-led Regioliner jet family.

If the talks between Dasa and Fokker succeed, it would be likely to put greater pressure on BAe to find a partner for its loss-making regional aircraft operations. BAe has had contacts with Japanese manufacturers over a possible partnership, but it would also have to consider joining the new European grouping.

Astra surges on strong Losec sales

By Robert Taylor in Stockholm

ASTRA, the Swedish pharmaceutical company, boosted pre-tax profits by 40 per cent to SKr1.063bn ($185.2m) in the first quarter of 1992 from SKr757m in the corresponding period of 1991.

The company again forecast that profits for the full year would rise between 20 and 25 per cent to over SKr4bn.

Sales for the quarter climbed 36 per cent to SKr3.7bn from SKr2.7bn, while profit per share rose by 45 per cent to SKr5.55 from Skr3.85.

Sales of Losec, the company's highly successful stomach ulcer drug and the main competitor of Glaxo's Zantac, increased by 72 per cent in the first quarter to SKr991m from SKr577m, with the biggest markets being in Germany, France and Britain. Total sales of Losec (including those made through licence-holders in the US, Italy and Spain) reached SKr1.550bn from SKr880m.

Astra's asthma agent Pulmicort enjoyed a 57 per cent sales increase in the first quarter to SKr414m against SKr264m.

Bull approves IBM alliance

BULL, the French computer maker, yesterday approved details of a wide-ranging accord with IBM, which will pay FFr540m ($100.9m) for 5.68 per cent of the state-controlled company, writes William Dawkins in Paris. The groups will put into effect their technology, research and commercial alliance from next month.

INTERNATIONAL COMPANIES AND FINANCE

TDK slides 20.7% at pre-tax level

By Robert Thomson in Tokyo

TDK, the Japanese maker of magnetic tapes, has reported a 20.7 per cent fall in consolidated pre-tax profits, to Y54bn ($419m). Sales were flat in Japan and down in international markets for integrated circuits and magnetic heads.

Total sales were 0.9 per lower at Y534.87bn, with recording media sales down 4 per cent. Foreign sales slipped 2.3 per cent, and sales of electronic materials and components were up 0.5 per cent.

Parent company pre-tax profit fell 25.4 per cent to Y33.4bn, on a 1.4 per cent decline in sales to Y408.3bn. It was the first profit and sales fall for six years.

Apart from the lower sales, the company blamed the poor performance on "exchange-rate fluctuations, start-up costs for a new tape plant in Luxembourg, and a lower fourth-quarter operational rate in order to adjust inventory".

Like many Japanese companies, the slowing of production was necessary after a sharp build-up of stock with Japanese retailers.

In TDK's case, the problem was heightened when its consumer electronics clients also reduced their inventories, cutting demand for its components.

Meanwhile, the collapse of Tokyo share prices reduced the company's unrealised gains on long-term holdings of stocks from Y33.37bn to Y21.36bn.

For the current year, parent company sales are expected to rise 0.4 per cent to Y410bn, with pre-tax profit up 4.7 per cent to Y35bn. Capital spending, which was Y57.5bn last year, is forecast at about Y30bn.

Omron tumbles 51% despite better sales

By Robert Thomson

OMRON, one of the world's leading makers of switches and other machine control components, has reported a 51.2 per cent fall in pre-tax profit, to Y13.55bn ($101.87m), for the year to the end of March. The company blamed the decline on aggressive investment in research and the slowing of the Japanese economy.

Sales rose 3.3 per cent to Y388.8bn, with sales in core control systems and office equipment softened by the general reductions in capital spending by Japanese companies. Demand remained strong for electronic fund transfer systems; sales in this area rose 11 per cent.

The company has been confident that the fall in capital spending in recent months will soon bottom, as Japanese industry needs to invest in labour-saving technology and pollution-control equipment.

The downturn, however, has affected Omron, whose cash reserves fell from Y99.58bn to Y68.59bn over the period, and whose unrealised gains on long-term holdings of shares plunged from Y37.5bn to Y13.7bn.

These two trends are common at most leading Japanese companies, which attempted to avoid higher interest rates last year by drawing down their cash reserves. Companies' unrealised gains have been eroded by the stock market collapse.

For this year, Omron is expecting a 3 per cent increase in sales, to Y400bn, and flat pre-tax profit at Y13.5bn.

● Rinnai, Japan's largest maker of gas home appliances, reported a 2.3 per cent fall in pre-tax profit, to Y7bn, on a 3.7 per cent increase in sales to Y113.9bn.

Demand for Rinnai's products was dampened by weakness in housing construction, though sales of kitchen equipment rose by 3.6 per cent and of water heaters by 3.1 per cent.

For the current year, pre-tax profit is forecast to be slightly higher at Y7.1bn, with sales rising 3 per cent to Y117bn.

Decline in demand hits results at Kyocera

By Neil Weinberg

KYOCERA, the world's top maker of integrated circuit ceramic packages, unveiled an 11.1 per cent fall to Y58bn ($436.1m) in consolidated pre-tax profits for the year ended March.

The company was hit by slack demand for semiconductor components, the yen's gains against the dollar, and high research and development costs.

Non-consolidated profits were off by a steeper 26.7 per cent to Y41.1bn, marking the first decline in five years. Net profits for the group, meanwhile, fell 15.9 per cent to Y27.1bn, and 21.1 per cent to Y23.3bn for the parent company.

Consolidated sales were off 1.7 per cent to Y458bn. At the parent company, they were down 4.2 per cent to Y317bn.

The group's ceramic product sales increased 1.7 per cent to Y340bn, but electronic equipment sales fell 15.9 per cent to Y66.3bn, on a sharp drop in foreign demand for computer equipment and laser printers. Optical precision equipment was also off, 1.8 per cent to Y47.2bn.

Consolidated domestic sales slipped 3.7 per cent to Y339bn. In contrast, they gained 1.5 per cent to Y121.6bn in the US, 6.5 per cent to Y76bn in Europe and 14.1 per cent to Y49bn in other areas.

The company also cut long-term liabilities 68 per cent, to Y18.6bn, on a consolidated basis, and 86 per cent to Y6bn on a parent basis, largely by reducing the level of corporate bonds outstanding.

For the year to March 1993, Kyocera expects non-consolidated sales to rise 5 per cent to Y333bn, and pre-tax profits 6.8 per cent to Y43.9bn. The gains are based on expectations of revived demand at home and in the US.

Automotive lights group down 20% to Y2.7bn

By Neil Weinberg

KOITO Manufacturing, Japan's top maker of automotive lighting equipment, suffered a 28 per cent drop in pre-tax profits, to Y5.3bn ($39.84m) for the year ended March. The result reflects the first fall in domestic sales of cars and trucks in over a decade.

Net profits were off 19.8 per cent to Y2.7bn.

The close Toyota Motor affiliate attributed the lower profits to increased expenses associated with new product launches, higher depreciation, and the need to source a greater share of parts outside the company due to labour shortages.

Sales rose 12.8 per cent to Y162bn, with new products and high-mount tail lights and other safety equipment leading the gains.

Auto-lighting sales were up 13 per cent to Y149.4bn; aircraft parts 11.8 per cent to Y2.9bn; and other products 12.4 per cent to Y9.6bn.

Exports to the US remained dull due to rising local production by Japanese carmakers and the slow economic recovery. However, shipments were brisk to the Middle East and Central and South America.

For the year ended March 1993, Koito expects sales to rise 5.6 per cent to Y171.5bn. Pre-tax profits are forecast to fall 7 per cent to Y4.8bn, and net profits 32 per cent to Y2.3bn.

Casio unveils record profits for full year

By Neil Weinberg in Tokyo

CASIO, one of the world's leading makers of digital watches and calculators, unveiled a 10 per cent rise in non-consolidated pre-tax profits, to a record Y19.1bn ($143.60m) in the year ended March. Net profits also gained 14.6 per cent to an all-time high of Y9.5bn.

Casio saw strong performances in all divisions, including an overall 15.6 per cent rise in sales to Y325bn. New products led the gains, with a label printer and a watch-tonometer combination selling particularly well.

On a consolidated basis, Casio enjoyed an 11.8 per cent gain in pre-tax profits, to Y22bn, and 14.9 per cent improvement in net profits to Y10.5bn. Sales climbed 14.4 per cent to Y383bn.

By division, parent firm calculator sales increased 10.3 per cent to Y126bn; electronic watches 14.8 per cent to Y81bn; computer and other equipment 37.3 per cent to Y77bn; and electronic musical instruments 14.8 per cent to Y42bn.

The company's plant and equipment budget is scheduled to rise to between Y22bn and Y24bn during the current term, from 15.3bn in the year ended March. Research spending is expected to remain largely unchanged at Y15.3bn.

Casio forecasts a 14.9 per cent rise in pre-tax profits, to Y22bn, and a 15.4 per cent in net profits to Y11bn for the year ending March 1993. Sales are seen gaining 15.3 per cent to Y375bn.

Consolidated figures are expected to rise similarly, with sales up 18 per cent to Y455bn, pre-tax profits 10 per cent to Y24.5bn, and net profits 14 per cent to Y12bn.

Mitsubishi Corp and Apple Japan forge alliance

APPLE Computer Japan has forged an alliance with Mitsubishi Corp, Japan's largest trading company, aimed at capturing more of the Japanese market for business systems, Reuters reports.

Mitsubishi said it would form an Apple Task Force with 50 systems engineers by the end of the year, and open an Apple Business Centre in Tokyo's Marunouchi business district.

Mitsubishi hopes its Apple-related sales will rise to Y30bn ($225.56m) in fiscal 1994. Apple's own sales in Japan jumped 33 per cent to about Y52bn last year, making Japan the computer-maker's fastest-growing market.

Yamaha Motor falls 12%

By Neil Weinberg

YAMAHA Motor, the world's second leading motorcycle manufacturer, saw an 11.9 per cent decline in non-consolidated pre-tax profits in the year ended March. It blamed the drop on unfavourable foreign exchange moves.

In contrast, company sales climbed 5.5 per cent to Y480.5bn ($3.61bn). Domestic turnover slipped 1.2 to per cent to Y198bn on sluggish demand for sports motorcycles.

Total export sales, however, gained 10.8 per cent to Y282.5bn, led by a 16.7 per cent jump in motorcycle shipments. Demand recovered in the US and was also strong in Europe and Asia, the company said.

By sector, sales of motorcycles increased 10 per cent to Y231.3bn, and special-duty products, including golf carts, 2.5 per cent to Y47.1bn. Marine equipment sales fell 4.4 per cent to Y107.9bn, and auto engines 5 per cent to Y39.7bn.

For the year to March 1993, Yamaha expects pre-tax profits to fall 13.4 per cent to Y6.5bn, on a 1 per cent gain in sales to Y485bn.

Leading UAE bank edges ahead 3%

NATIONAL Bank of Abu Dhabi (NBAD), the largest bank in the United Arab Emirates in terms of total assets, said net profit rose 3 per cent in 1991, to Dh92.6m ($25.33m) from Dh90.2m the previous year, AP-DJ reports from Manama.

The bank said it had set aside Dh68.3m as a provision for possible loans losses, 37 per cent above the Dh50m of provisions in 1990.

Net interest income rose 12 per cent to Dh260.8m from Dh233m in 1990, the bank said.

Total assets at the end of December 1991 stood at Dh25.45bn, up 8 per cent from Dh23.549bn a year earlier.

Bank deposits with NBAD dropped sharply, by 26 per cent, to Dh2.98bn at the year end, from Dh4.04bn. That was partly offset by a 17 per cent rise in customer deposits, which gained to Dh20.1bn from Dh17.2bn.

Loans and advances were up 23 per cent, to Dh9.549bn from 7.77bn.

NBAD proposed total dividends of Dh75.3m, unchanged from the 1990 payout.

No 004790/1992

IN THE HIGH COURT OF JUSTICE
IN ENGLAND
Chancery Division

Mr Registrar Buckley

IN THE MATTER OF

THE MEDITERRANEAN INSURANCE & REINSURANCE COMPANY LIMITED

and

IN THE MATTER OF

THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that, by an Order dated 14th May, 1992 made in the above matters, the High Court of Justice has directed a Meeting to be convened of the Closing Scheme Creditors (as defined in the Scheme of Arrangement hereinafter mentioned) of The Mediterranean Insurance & Reinsurance Company Limited ("the Company") for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement ("the Closing Scheme") proposed to be made between the Company and the Closing Scheme Creditors and that such Meeting will be held at The Conference Forum, The Sedgwick Centre, London E1 8DX on 3rd July, 1992 commencing at 11.00 a.m., at which place and time all such Closing Scheme Creditors are requested to attend.

Any creditor of the Company who is or believes that he may be entitled to attend the said Meeting can obtain copies of the said Closing Scheme, the Explanatory Statement required to be furnished pursuant to Section 426 of the Companies Act 1985 and the Form of Proxy for use at the said Meeting from the registered office of the Company at Ibex House, 42-47 Minories, London EC3N 1DY or from the offices of Clifford Chance, Royex House, Aldermanbury Square, London EC2V 7LD, in each case during usual business hours on any day (other than a Saturday or a Sunday) prior to the date appointed for the said Meeting.

Closing Scheme Creditors may vote in person at the said Meeting or they may appoint another person, whether a Closing Scheme Creditor or not, as their proxy to attend and vote in their place.

It is requested that the forms appointing proxies be lodged with the Company Secretary at the registered office of the Company not less than 48 hours before the time appointed for the Meeting, but if forms are not so lodged they may be handed to the Chairman at the said Meeting.

By the said Order, the Court has appointed Malcolm J. London or failing him, Philip J. Singer, to act as Chairman of the said Meeting and has directed the Chairman to report the results thereof to the Court.

The Closing Scheme will be subject to the approval of the Court.

Dated 20th May, 1992

CONTRASTING RESULTS FROM TWO LEADING EUROPEAN CAR MAKERS

Volvo registers first-quarter loss

By Robert Taylor in Stockholm

VOLVO, the Swedish vehicle group which is moving closer to a possible merger with Renault, suffered a first-quarter loss of SKr248m ($43m) after financial items. This contrasts with a SKr340m profit for the same period of 1991.

The return to the red at Volvo with a SKr347m operating loss for the first quarter follows a small SKr88m operating profit in the fourth quarter of 1991 following five consecutive quarterly operating losses. It recorded a SKr397m deficit for the first quarter of last year.

By contrast, group sales revenue rose by 10 per cent to SKr20.02bn for the first quarter of 1992, from SKr17.46bn last year.

Total group assets rose to SKr108.6bn from SKr106.7bn at the end of December due to acquisitions and divestments, while liquid funds fell to SKr18.4bn in the first quarter from SKr18.8bn.

Return on capital employed rose to 6.2 per cent in the latest 12-month period from 3.8 per cent last time, while income per share was SKr2.10 compared with a loss of SKr12.90.

The negative trend in its most important vehicle markets – the US, Britain and Sweden – had brought "heavy pressure" on the group's profits performance.

But the company also pointed out the operating loss had "declined significantly", mainly due to rationalisation measures, first adopted in the autumn of 1990. Volvo estimates its cost level – calculated on an annual basis – was reduced by SKr500m.

So far, cost-saving measures have totalled SKr3.5bn, and by the end of this year Volvo calculates its total cost level will have been cut by as much as SKr5.2bn.

But the group said yesterday that "despite this achievement, continued efficiency improvements and aggressive marketing efforts" were required.

It added that the alliance with Renault had already yielded gains and this would strengthen the group's long-term competitiveness, while co-operation with Japanese car maker Mitsubishi would provide Volvo with "important knowledge in the area of production technology" in the medium-size car range.

Volvo's truck division sales, meanwhile, rose by 8 per cent to SKr7.42bn from SKr6.55bn. Volvo said there had been some recovery in the US and Britain in the first quarter and its share of the truck market had risen slightly in Europe.

Renault stages sharp recovery in profits

By William Dawkins in Paris

RENAULT, the French state-owned car maker, yesterday reported a strong first-quarter profits recovery. Pre-tax profits climbed from FFr298m ($56.2m) in the first three months of 1991 to FFr2.36bn in the same period of this year, on sales up by 19.3 per cent from FFr40.01bn to FFr47.73bn.

The gain comes after accounting for Renault's FFr180m share of Volvo's losses.

The group attributed the improvement to record car sales in the first quarter. This was mostly due to the group's performance, though a limited gain also came from the release of pent-up demand, which had built up during last autumn's strike at Renault's main engine and gear box making plant.

The latest figures continue the sharp improvement in Renault's profits shown over the whole of last year, and is a mark of the productivity gains achieved under the chairmanship of Mr Raymond Lévy. He is due to retire on Friday, after nearly six years at the head of the group.

His successor, expected to be the managing director Mr Louis Schweitzer, is likely to be named next week.

Renault sold FFr40.28bn worth of cars in the first quarter, 84.4 per cent of total turnover, well up on the 80.9 per cent of total sales they represented in the same period of 1991. Truck making accounted for FFr6.33bn, and the remaining FFr1.1bn came from other industrial activities.

Saudi Arabian bank closes London branch

By Mark Nicholson, Middle East Correspondent

NATIONAL Commercial Bank, Saudi Arabia's biggest in terms of assets, said yesterday it was closing its London branch as part of a rationalisation and to cut costs.

The bank said its London branch, one of eight branches or representative offices overseas, had not been profitable since it was set up six years ago.

Mr Jinx Grafftey Smith, the Jeddah-based bank's London representative, said the branch, which has a staff of 53, would be scaled down to representative status.

"One is not leaving London – one is cutting costs though," he said.

However, bankers close to the Saudi banking market expressed surprise at the move yesterday, suggesting that even if it made financial sense, it represented some loss of face for one of the most established and best-connected banks in the Kingdom.

Bankers in Riyadh also speculated that behind the move may have lain some discomfort within the Bank of England over the fact that NCB has not produced any financial figures since 1989 – a result, according to some Saudi bankers, of an internal dispute among the bank's Saudi owners.

The bank, owned by Sheikh Khaled bin Mafouz, showed assets in 1989 of SR84bn ($22.4bn), and, although it has not produced any figures since 1989, it is widely viewed as profitable and liquid by bankers in Riyadh and Jeddah.

However, its accounts were qualified in Saudi Arabia in 1987, 1988 and 1989 under articles of the Saudi banking control law banning lending to a client in excess of a quarter of reserves and prohibiting some types of credit without security.

Mr Grafftey Smith yesterday firmly denied the closure was the result of any pressure from the Bank of England. The Bank itself declined to comment.

However, the Bank is understood to have communicated its concern over NCB's lack of published figures directly to the bank's owners last year.

Mr Grafftey Smith said the branch, which undertook trade, treasury and corporate lending operations out of London, with a total book of some $1bn, had returned modest profits on the former two, but had made substantial losses on its lending.

Bankers close to the Saudi market in London suggested the branch closure was not entirely surprising in that light.

"It's a loss of face, but they'll be better off without it," said one.

Sharp rise in income at Dell Computer

By Louise Kehoe in San Francisco

DELL Computer more than doubled first-quarter revenues as US personal computer sales boomed. The Texas company, a pioneer in the mail order distribution of computers, also nearly doubled its earnings, reporting results well above expectations.

Net income was $19.8m or 52 cents a share, up from $10.1m or 30 cents in the same period a year ago. Revenues for the quarter were $366.1m, compared with $174.8m a year earlier.

"Our market-share momentum accelerated during the quarter and confirms our belief that Dell's business model may be imitated – but not duplicated," said Mr Michael S. Dell, chairman and chief executive officer.

In recent months, several of Dell's competitors, including International Business Machines, Digital Equipment and Compaq Computer have begun offering mail order services.

Dell's strong earnings are particularly remarkable at a time when many personal computer manufacturers are struggling to adjust to rapidly declining prices and changing distribution channels, with discount "superstores" now representing a primary sales channel in the US.

In the first quarter of fiscal 1993, sales doubled in both US and international operations and were higher in every country and in every customer segment over the comparable quarter a year ago, the company said.

"Our domestic sales were up more than 35 per cent from the fourth quarter of last fiscal year and order rates accelerated as the quarter progressed," said Mr Dell.

International sales were $139.8m, compared with $70.1m previously.

Chemical Banking sees decline in debt provisions

By Alan Friedman in New York

THE CHAIRMAN of Chemical Banking, the US banking group formed by the merger of Manufacturers Hanover Trust and Chemical Bank, yesterday predicted a decline in the level of the bank's bad debt provisions and loan write-offs during the second and third quarters of 1992.

Mr John McGillicuddy, speaking at the first shareholders meeting since the merger took place late last year, said the $375m bad-debt provision level recorded in the first three months of the year was high.

The Chemical chairman said he thought the level of non-performing assets would peak in the second or third quarter of the year. The total of non-performing assets at the bank was $6.2bn at the end of March.

Turning to the treatment of loans to Olympia & York, the Canadian property group that recently filed for protection from creditors in Canada and the US, Mr McGillicuddy said the bank's lending to O&Y Development Ltd was placed on non-performing status in the first quarter of 1992.

Chemical Banking has a loan exposure of about $250m to the O&Y group, of which half is represented by lending to property projects, such as the Canary Wharf development in London.

Mr Walter Shipley, chief executive of Chemical, meanwhile told shareholders the bank was confident it would meet or exceed its stated cost-cutting targets, which begin with annual operating cost cuts of $225m by year-end and as much as $750m a year by 1995.

Mr Shipley said the reduction in staff was also proceeding on schedule, with 2,800 jobs eliminated since the merger was announced last summer and the greater part of the overall goal of 6,200 cuts to be achieved by year-end.

Chemical Bank is also continuing to strengthen its capital base, having achieved a level of 6.6 per cent in its Tier 1 risk-based ratio at the end of March.

The bank is planning to raise up to $250m by offering up to 10m fixed-rate perpetual preferred shares at $25 each.

GM shares ease ahead of offer

By Martin Dickson in New York

THE largest stock offering by a US company was heading for a climax last night as General Motors prepared to sell up to $2.26bn of shares following a three-week global road show.

The automobile manufacturer completed its presentations to potential investors on three continents on Monday and the offering was expected to be priced after the New York Stock Market closed last night. It will then be offered for sale by the underwriters.

Robert Stempel: global world show on prospects

General Motors shares were trading at $39⅞, down $⅛ in morning trading yesterday.

The offering is a test of investor sentiment towards the company, which lost $4.5bn last year, but over the past few months has changed its top management, announced plans for 21 plant closures and 70,000 job losses and begun overhauling its North American management structure.

The central question facing potential investors is whether these changes, coupled with a slow recovery in the depressed US vehicle market, will be sufficient to restore the company's earnings to respectable levels at a time when it faces increasing competition from Japanese manufacturers and American rivals Ford and Chrysler.

The offering, lead managed by investment bank Morgan Stanley, involves the issue of 50m shares of GM common stock, with the possibility of a further 7.5m being issued if there is sufficient demand.

Some 15m of the shares are earmarked for the UK, Asia/Pacific and other international markets.

Three General Motors teams, including Mr Robert Stempel, the chairman, have given presentations on the company's prospects in 18 cities around the world.

The offering is GM's first issue of common stock since 1955 and the largest issue by a US company, excluding the $2.8bn rights offering to existing shareholders made last year by Time Warner. The next largest offering was a $1.46bn issue by Consolidated Rail in 1987.

The GM issue has been helped by the upward sweep of the US stock market since the start of the year and the relative strength of "cyclical" companies, such as motor manufacturers, whose performance tends to track the economic cycle.

Japanese cotton spinners turn in mixed results

By Emiko Terazono in Tokyo

JAPANESE cotton spinners reported mixed results for the fiscal year to March.

Kurabo Industries posted a 19.4 per cent rise in pre-tax profits to Y1.8bn ($13.5m) on a 2.6 per cent rise in sales to Y144.4bn. After-tax profits rose 8.2 per cent to Y1.8bn.

For the current year to March, Kurabo forecasts a 19.5 per cent rise in pre-tax profits to Y2.2bn on a 2.4 per cent increase in sales to Y148bn.

Daiwabo returned to the black with a non-consolidated pre-tax profit of Y1bn, against the previous year's loss of Y162m. Overall sales fell 5.7 per cent to Y71.1bn due to sluggish sales of cotton yarn.

However, Daiwabo posted after-tax losses of Y873m due to a Y2.8bn extraordinary loss as a result of inventory liquidation. Daiwabo said it will not pay annual dividends.

For the current year to March 1993, it expects a 22.5 per cent decline in pre-tax profits to Y800m on a 4.2 per cent increase in sales to Y74.2bn.

Shikibo posted a pre-tax loss of Y5.3bn against the previous year's loss of Y1.3bn. Sales rose 11.9 per cent to Y77.5bn.

However, Shikibo posted an extraordinary loss of Y13.5bn due to the liquidation of its two financing affiliates, which incurred heavy losses as a result of extensive stock speculation. After-tax losses totalled Y4.7bn. The company will also skip its dividend payment.

For the current year, Shikibo expects to reduce its pre-tax loss to Y2bn.

Dayton Hudson lifts sales but earnings static

By Nikki Tait in New York

DAYTON HUDSON, one of the large US retailing groups, yesterday reported static profits in the three months to May 2, at $35m, against $34m.

Sales, however, rose from $3.35bn to $3.72bn, and – helped by a relatively upbeat statement from Dayton's chairman, Mr Kenneth Macke – the shares added $1⅛ to $80⅛.

The strongest performance came from Dayton's discount chain, Target. Here, same-store sales rose by 6 per cent, and total sales were up from $1.84bn to $2.15bn.

"We are encouraged that sales are beginning to show some strength in California, especially at Target," said Mr Macke.

Australian ICI 27% ahead at halfway

By Kevin Brown in Sydney

ICI AUSTRALIA, a subsidiary of the UK chemicals group, yesterday reported a 27 per cent increase in net profits to A$30m (US$23m) on turnover down 3 per cent to A$1.4bn for the six months ended March.

The company said the result would have been still better but for the impact of the depressed plastics market and increased competition from imports, some of which it claimed had been dumped.

Mr Michael Deeley, chief executive, said the company was pleased with the recovery in profits, but warned that full-year earnings were not likely to show much improvement on last year.

"We are hoping to do a little better [this year], but we are not promising any big improvements," he said. "There are few signs yet of a recovery in volumes or prices in Australia or on world markets."

ICI said the plastics division made a trading loss before abnormal items of A$22m, compared with a profit of A$5m in the comparable period of the previous year.

"Sales volumes were similar to last year, but overseas plastics prices continued to decline, leading to weaker local and export prices and margins," he said.

Mr Deeley said increased import competition and dumping particularly affected local vinyl resin and polythene polymer prices. "Despite concerted efforts, no effective dumping protection has been achieved," he said.

ICI said the recent sale of its 12.5 per cent holding in Vinidex Tubemakers to Tubemakers of Australia would result in an abnormal net profit of about A$14m in the second half.

● Oil and gas producer Santos said first-quarter sales revenue fell 12.2 per cent to A$144m, mainly due to lower oil prices, Reuter reports from Adelaide.

Mr Stan Wallis, chairman told the annual meeting crude oil prices for the March quarter were on average US$3 a barrel lower than for the 1991 first quarter.

BTR Nylex sells two US assets

By Kevin Brown in Sydney and Emiko Terazono in Tokyo

BTR Nylex, a quoted Australian subsidiary of BTR, the UK industrial conglomerate, yesterday announced two US disposals together worth $171m.

It has sold ACI America, its US glass business for $89m and also part of its shareholding in General Chemical Soda Ash Partners (GCSAP), a US soda ash producer, for $82m.

Mr Alan Jackson, chairman, said that the ACI America sale – to the Vitro Group of Mexico – was part of an overall group review of operations which might include other disposals of non-core assets "where prudent".

ACI America was acquired in 1988 when BTR Nylex bought ACI International, a diversified industrial group, for A$1.7bn (US$1.29bn). ACI America is a market leader in glass distribution, with more than 120 distribution and retail sales outlets on the US west and south coasts, and in the eastern states.

BTR Nylex said ACI America would complement the glass manufacturing activities of Vitro Plan SA, a subsidiary of Vitro Sociedad Anomica of Mexico.

The company manufactures and distributes flat and auto-glass products. BTR Nylex's main glass interests are in bottle manufacturing.

BTR Nylex announced plans for a restructuring before reporting a 41 per cent slump in annual net profits to A$286m six weeks ago. The group's shares closed unchanged at A$3.61 on the Australian Stock Exchange.

The shares in GCSAP are being acquired by Tosoh, the leading Japanese integrated

Alan Jackson: overall group review of operations

chemical company. The company's US arm will buy 24 per cent of GCSAP, reducing the BTR Nylex stake from 49 per cent to 25 per cent.

GCSAP was set up by General Chemical Corporation, a US chemical company, and BTR Nylex in 1986. The company's current soda ash production capacity is 2.2m tonnes a year.

The purchase will make Tosoh one of the world's leading soda ash producers, and will give the company access to a ready supply of alkali in the US.

● Vitro, Mexico's largest industrial conglomerate and producer of flat glass, is listed on the the New York Stock Exchange, *writes Damian Fraser.*

The purchase of ACI furthers Vitro's aim of becoming an integrated North American group ahead of a free trade pact with the US and Canada. More than 50 per cent of Vitro's sales are now outside Mexico, largely as a result of the 40 per cent accounted for by its US arm, Anchor Glass.

Scepticism grows over Australian brewing deal

By Kevin Brown in Sydney

SA Brewing shares rose 9 cents to A$3.10 on the Australian Stock Exchange yesterday, reflecting growing scepticism about the group's proposed merger with Foster's Brewing Group. Foster's shares fell 7 cents to A$1.92.

The share movements suggest investors believe the proposed merger would benefit International Brewing Holdings (IBH), Foster's main shareholder, at the expense of SA Brewing shareholders.

Meanwhile, Standard and Poor's, the US credit rating agency, placed both companies on creditwatch for a possible downgrading, further complicating the proposal.

"In our view, the uncertainty surrounding the outcome of the merger proposal and its effects on lenders to Foster's is sufficient to place Foster's on creditwatch with developing implications," the ratings agency said.

It said the merger would affect SA Brewing's credit rating by exposing the group to a higher degree of leverage, and reducing the strength of its conservatively-geared balance sheet.

Foster's long-term unsecured debt is rated BB, and its commercial paper B1.

The longer-term unsecured debt of SA Brewing is rated BBB plus, and its commercial paper A2.

Mr Ross Wilson, SA Brewing chief executive, is in the middle of a roadshow for institutional investors in Melbourne and Sydney, in an attempt to generate enthusiasm for the merger proposal.

However, brokers said that the deal was unlikely to succeed because of the opposition of Foster's' directors, lack of enthusiasm from Asahi Breweries of Japan, which owns 20 per cent of Foster's, and also regulatory difficulties.

SA Brewing was believed to be having trouble persuading institutional investors to support the sale of about 6 per cent of IBH's entitlement to shares in the merged group at a price valuing its Foster's shares at A$2.50.

Crédit Suisse heads Swiss foreign bond managers' league

By Ian Rodger in Zurich

THE SWISS franc foreign bond market was surprisingly resilient last year, considering the background of a weakening franc, rising interest rates and dreary Japanese equity trends.

The value of the market dropped only 11.4 per cent to SFr28.6bn (US$19.7m), and the Japanese share actually rose slightly from SFr12.1bn to SFr12.9bn.

Equity related issues – convertible bonds and warrant bonds – accounted for 37 per cent of the value of all issues, up from 34 per cent in 1990, and Japanese issuers were responsible for more than 99 per cent of them.

The league table of lead managers shifted slightly, with Crédit Suisse displacing Union Bank of Switzerland (UBS) at the head.

It was expected that the dominance of the big three Swiss banks would decline after the issue of banking licences to Japanese securities houses in 1988, but their combined share of 61.2 per cent last year was only 2 per cent less than in 1990.

No Japanese house has yet taken away a lead management position from a Swiss bank for a repeat Japanese borrower although that milestone has been anticipated for months.

Things have been moving more rapidly in the equity-linked table, with Japanese firms taking three of the top five places in the period up to mid-May this year, compared with only two last year.

Market specialists agree that the introduction of conversion price adjustments on equity related issues – an innovation attributed to Yamaichi Bank (Switzerland) – has helped move these issues in a year when Japanese equity prices were plunging.

The feature enables the conversion or exercise price to be reduced by up to 20 per cent several months before the conversion date.

TOP TEN LEAD MANAGERS

Crédit Suisse	1	(3)
SBC	2	(2)
UBS	3	(1)
Paribas	4	(12)
Nomura	5	(4)
Wirts-und Privat	6	(5)
Yamaichi	7	(11)
Volksbank	8	(6)
Gottardo	9	(7)
Daiwa	10	(20)

La Caixa set to acquire Progreso

By Tom Burns in Madrid

LA CAIXA, the Barcelona-based savings bank that ranks as Spain's biggest financial institution, is seeking to add investment banking to its growing business empire by means of the acquisition of Banco de Progreso.

The March family, one of the wealthiest in Spain, owns 65 per cent of Progreso, a stake valued at about $116m at current stock market prices. Spokesmen for the family and for La Caixa said that the negotiations for Progreso's purchase were at an advanced stage.

The acquisition will gain La Caixa entry into the major corporate business in Spain and through the company's London office.

La Caixa has customer deposits of some Pta47,000bn ($471.1m). It made a net profit last year of Pta30.7bn.

La Caixa's decision about Progreso follows its acquisition of a 50-branch strong banking network in France from Paribas, as well as purchases of an asset management bank in Monaco and of a major stake in Credit Andorra. In Spain, La Caixa paid Pta2.8bn earlier this month for the small private bank, Isobank.

Strongly-entrenched in Catalonia, La Caixa is seen in Spain as a pioneer in what is viewed as a steady encroachment by the big savings banks on what was traditionally considered the preserve of the major domestic banks.

For the March family, the prospective disposal of Progreso represents a further retreat from the financial sector.

Three months ago, Corporacion Alba, the stock market listed holding company controlled by the family, realised Pta12bn with the sale of its 15.5 per cent stake in the Signet Banking, its financial arm in the US.

ABB pre-tax result slips 3% in quarter

By Ian Rodger in Zurich

ABB Asea Brown Boveri, the Swedish-Swiss engineering group, reported pre-tax profit down 3 per cent in the first quarter, to $225m. It said it had not yet experienced an upturn in any industrialised markets.

Orders received reached $7.8bn, 1 per cent higher than in the first quarter of 1991. Revenues were up 2 per cent to $6.5bn, and operating earnings were 4 per cent higher at $407m. Pre-tax profit after non-recurring items was down 9 per cent at $222m.

The group said its infrastructure-related businesses, such as power plants and power transmission, had higher earnings. However, its power-distribution, industrial and environmental-controls divisions – which are related to construction and capital spending – reported weaker results.

Demand in Asian markets remained strong, with the group winning large power plant orders in India and Indonesia since the beginning of the year.

Bic to buy US stationery concern

By Alice Rawsthorn in Paris

BIC, the French company and leader in the international market for disposable pens, razors and cigarette lighters, is expanding its stationery interests in the US by buying Wite-Out for an undisclosed sum.

Wite-Out specialises in the production of corrective fluids for blotting out mistakes made on typewriters. It has annual sales of $12m and a market share of 15 per cent.

In recent years, the corrective fluids market has come under pressure because of the development of typewriters and word processors with automatic correction facilities.

However, Mr Bruno Bich, chairman of Bic's US subsidiary, said the acquisition of Wite-Out was an "excellent extension" of the group's product portfolio.

Bic, which is best known for its ball-point pens and disposable razors, also owns a number of prominent stationery brands, including Conté, one of France's most exclusive lines of pencils and papers.

The Bic group has been expanding its US interests in recent years under Mr Bich, who was recently named the successor to his father, Baron Marcel Bich, as chairman of the Bic holding company when the latter retires.

Managers of India Fund suggest unit trust structure

By Simon London

THE MANAGERS of the India Fund, one of the largest country funds quoted on the London market with net assets of more than £300m, ($531m) have proposed it could be restructured as a unit trust.

Merrill Lynch, which manages the fund, said that the change in capital structure would close the discount to asset value at which the shares currently trade.

With an open-ended or unit trust structure, the unit price should reflect the asset value of the fund.

The rapid rise of the Indian market this year has not been reflected in the share price of the India Fund.

Yesterday shares were quoted at £3.44, a 37 per cent discount to asset value. When the fund was launched in 1986, by comparison, shares were quoted at 100p.

An open-ended structure can be difficult for investment managers however, since assets may have to be liquidated rapidly if investors withdraw funds.

Merrill Lynch said that an extraordinary meeting of shareholders would be called next year in order to vote on the proposals.

A 75 per cent majority in favour would be required for any change of capital structure to be implemented.

Ontario's $2bn issue launched to warm reception

By Richard Waters

THE PROVINCE of Ontario's new programme of large global bond issues was launched to a largely appreciative market yesterday, enabling $2bn of bonds to be soaked up with relative ease.

Against a positive background in the US Treasuries market, strong demand from US investors set the tone and acted to bring in investors from Europe later in the day. The 10-year bonds were offered with an indicated yield spread of 64-66 basis points over the US government market but, given the level of demand, it seemed likely last night that the deal would be priced at the lower level.

For Ontario, which this year expects to raise around C$10bn from the capital markets to finance its budget deficit, the issue was an important launch for its new funding programme. Had it chosen to raise money through a smaller issue in the Yankee (domestic US) market, it could have offered a yield spread of close to 60, some bond market professionals said. But the price was widely seen to have been pitched at the right level to ensure true global distribution for the issue.

Ahead of the opening in the Far East, around half of the bonds seemed destined for the US. J.P. Morgan and Salomon Brothers, joint lead managers,

INTERNATIONAL BONDS

each of which took $600m of bonds, said the issue size would not be raised, and that allocations would be scaled back.

The second huge dollar offering of the week seemed imminent last night: a $1bn, five-year issue from Toyota Motor Credit. Judging by early indications, the Toyota issue will also be priced attractively to ensure a successful take-up, and the bonds could encounter strong demand.

For anything less than the sort of $1bn issue it is planning, Toyota might expect to pay a yield spread of around 35 basis points over the government benchmark. To succeed in placing the largest-ever international bond issue by a corporate, however, it is expected to offer an extra 3-5 basis points, taking the yield spread to as much as 40 basis points.

Meanwhile, the Euromarket saw two other unusual dollar issues yesterday: $200m of floating-rate notes from the Swedish National Housing Corporation (SBAB), and $250m (raised from $200m) of five-year bonds from Goldman Sachs. The floating-rate notes, yielding around 8 basis points over Libor at the reoffered price, were aimed at a market which has seen little issuance other than from banks recently. Coming from a strong double-A credit, the issue was reported to have met firm demand.

Goldman's deal, priced to yield 91 basis points over Treasuries, was its second in the international market (it had offered a 100-basis point yield spread in the first issue, last autumn.)

During an active day, the Euromarkets also saw a pair of competing 10-year Canadian dollar deals, both from high-class borrowers: the Inter-American Development Bank and OKB. The former offered a yield spread of 43 basis points, the latter 38, prompting some complaints that the latter was too keenly priced. The IADB sold out quickly, while OKB was reported to have met comfortable demand, the syndicate breaking later in the day to leave the bonds trading at around their yield spread at issue.

Finnish Export Credit came with an Ecu300m, three-year transaction, following the spate of shorter-dated Ecu deals of recent days. The maturity was pushed beyond two years to get away from the high money market rates in Ecu, which made very short bond yields appear unattractive, the lead manager said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Province of Ontario(f)†	2bn	(f)	(f)	2002	-	Salomon Brothers
Goldman Sachs(a)†	250	7⅝	101½	1997	1⅞/1¼	Goldman Sachs
SBAB(b)‡†	200	(b)	100	1995	0.175/0.125	UBS Sec.
Toegosei Chem.Inds.(a)♦	100	3½	100	1998	2¼/1½	Daiwa Europe
Bnc.De Galicia B.Aires(d)†	50	8¾	99.0253	1993	1.00	Man. Hanover
Bnc.Da Bahia Inv.(a)†	50	10	97.654	1994	1⅛/⅞	Bear Stearns
ECU's						
Ist.Banc.San Paolo.(c)‡†	150	(c)	100	1997	0.20/0.10bp	Ind.Bk.of Japan
Finnish Export Crdt.(a)†	300	9¼	101.0625	1995	1⅜/1¼	Salomom Brothers
D-MARKS						
Republic of Austria(a)†	1bn	8	102	2002	2½/1½	Dresdner Bk.
CANADIAN DOLLARS						
IADB(a)†	300	9	101.425	2002	2/1.775	SBC
OKB(a)†	250	9	101.755	2002	2/1⅞	Crdt.Suisse Fst.Boston
FRENCH FRANCS						
Compagnie Bancaire(e)†	600	9¼	99.61	1998	⅛	Paribas Cap.Mkts.
SWISS FRANCS						
IBM Intl.Fin.(g)†	50	8	101	1994	-	SBC
GUILDERS						
Credit Lyonnais(a)†	250	8½	100.20	2002	1/⅝	Credit Lyonnais Ned.
Fin.for Danish Ind.(a)†	100	8½	100.25	2000	-	Kredietbank

☆Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Coupon pays 3 month Libor plus 6.25bp. Non-callable c) Coupon pays 6 month Libor plus 20bp. Non-callable. d) Coupon payable Semi-annually. Non-callable. e) Fungible with existing FFr1bn issue. Non-callable. f) To be priced 20/5/1992. Indicated yield spread: 64-66bp. g) Promissory note issue. Non-callable.

Treasuries advance on 17% fall in April housing starts

By Patrick Harverson in New York and Simon London in London

US TREASURY prices firmed across the board yesterday after a large decline in April housing starts fuelled hopes of an interest rate cut.

In late trading, the benchmark 30-year government bond was up 11/32 at 102¾, yielding 7.756 per cent. The two-year note was also higher, up 1/32 at 100 23/32, yielding 4.930 per cent.

The market reacted instantly to news from the Commerce Department that housing starts fell 17 per cent in April, a decline that was almost three times analysts' forecasts.

The figures sparked speculation that the Federal Reserve's policy-making Open Market Committee, which met yesterday, would react with a cut in interest rates to stimulate the sluggish economic recovery. Although monetary policy remained on hold, there were expectations that the Fed would act soon. But some analysts cautioned the sharp drop in housing starts last month was primarily due to an unfavourable comparison with unsustainably high levels recorded earlier this year.

■ GERMAN government bonds fell slightly following substantial gains on Monday, with trading nervous before the release of money supply data which could determine the future direction of interest rates.

The benchmark 8 per cent Unity bond maturing 2002 closed at 100.21-29 for a yield of 7.96 per cent, little changed from Monday's closing level but below the high of the day.

The June bund futures contract on Liffe, the London futures and options exchange, closed at 87.48, down from an opening level of 87.56 and well below the high of 87.63. Volume was sluggish at 30,000 contracts against Monday's 80,000.

Money supply data for April could be released any time from today and is one of the key economic indicators watched by the Bundesbank.

GOVERNMENT BONDS

The council of the central bank holds a regular bi-weekly meeting tomorrow.

Yesterday, construction industry employers and unions agreed a 5.8 per cent pay increase, plus improved conditions of service. The settlement follows a similar deal between engineering employers and unions agreed on Monday.

■ UK government bond prices were stable to slightly weaker yesterday, but with few investors or dealers taking positions before the retail sales data for April expected today.

The benchmark 9 per cent gilt maturing 2011 closed at 100¾, close to the opening level, for a yield of 8.9 per cent.

The June gilt futures contract on Liffe closed at 99.06, just down from the opening level of 99.08 and below the day's high of 99.11. Volume was 15,000 contracts, well down from Monday.

The market was encouraged by figures which showed the public sector borrowing requirement at £3.6bn in April, against market expectations of closer to £4bn. This suggested that government finances are not deteriorating as quickly as some analysts had predicted.

Official data also suggested that the UK economy is slowly starting to pull out of recession. Manufacturing output rose by 0.1 per cent during March, although the annual rate of growth remained negative, at minus 1.2 per cent.

However, retail sales figures due for release today could give a better indication of the post-election performance of the economy.

■ JAPANESE government bond prices continued to trade with a firmer tone overnight in Tokyo, supported by the buoyancy of share prices and the strength of the yen on the foreign exchange markets.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	108.1646	+0.016	9.07	9.34	9.71
BELGIUM		9.000	06/01	101.2500	-0.050	8.79	8.79	8.75
CANADA *		8.500	04/02	100.6000	+0.800	8.37	8.50	8.70
DENMARK		9.000	11/00	101.1000	-0.300	8.79	8.77	8.79
FRANCE	BTAN	8.500	03/97	99.0494	-	8.73	8.73	8.76
	OAT	8.500	11/02	99.6500	-0.050	8.55	8.58	8.63
GERMANY		8.000	01/02	100.1700	-0.050	7.96	7.97	7.92
ITALY		12.000	02/02	98.9900	+0.050	12.54†	12.59	12.67
JAPAN	No 119	4.800	06/99	96.5524	+1.232	5.47	5.64	5.83
	No 129	6.400	03/00	105.1938	+0.114	5.47	5.65	5.61
NETHERLANDS		8.250	02/02	99.4900	+0.020	8.31	8.30	8.26
SPAIN		11.300	01/02	102.6300	-0.080	10.82	10.86	10.74
UK GILTS		10.000	11/96	103-01	+0/32	9.15	9.25	9.35
		9.750	08/02	104-22	-1/32	9.04	9.16	9.14
		8.000	10/08	100-24	-1/32	9.21	9.04	9.05
US TREASURY *		7.500	11/01	102-06	+10/32	7.8	7.35	7.42
		8.000	11/21	102-24	+21/32	7.75	7.86	7.92
ECU (French Govt)		8.500	03/02	99.3500	-0.200	8.59	8.63	8.59

London closing, *New York closing. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

The benchmark 10-year bond issue No 129 closed in Tokyo on a yield of 5.48 per cent, from 5.515 per cent on Monday.

The yen held on to Monday's gains on the foreign exchange markets, moving in a tight range against the dollar between Y129.25 and Y128.25 in Asian trading. By late afternoon in London, the Japanese currency stood at Y129.00.

The Nikkei 225 stock market index closed up 311 points on the day at 18,754, following a 368 point rise on Monday.

Investors expect steady flow of share offers from France

By Sara Webb

INTERNATIONAL equity investors expect to see a steady flow of global share offerings from France following last week's surprise announcement that the French government plans to raise FFr9.5bn from selling its 19 per cent stake in Total, the French oil group.

Analysts predict the French government may raise up to FFr15bn this year and a further FFr20bn-FFr30bn from partial privatisations in 1993,

INTERNATIONAL EQUITY ISSUES

depending on which party wins the general election. Given the large size of the deals, the government may need to raise up to 25 per cent of the total from international investors.

Ms Sophie Blanpain, French analyst at Shearson Lehman Brothers, says attention will focus initially on Total's equity offering, adding that if this is well-received and takes place soon, it could pave the way for another privatisation later this year.

No date has been given for the Total offering, which is the biggest of the partial privatisations so far, although market participants expect it to take place within the next two months, probably in June. Ms Blanpain believes the international tranche could represent up to 25 per cent of the issue.

The state has already raised FFr2bn from the sale of its 2.8 per cent stake in the oil group Elf Aquitaine, and is expected to sell shares in the Caisse Nationale de Prevoyance (CNP), a life insurance company, raising an estimated FFr2bn.

Ms Blanpain points out that the state is likely to sell shares in companies which have completed their restructuring. She believes the next candidate for partial privatisation is likely to be either Rhône Poulenc, the chemicals and pharmaceuticals group, or Péchiney, the state-owned aluminium producer.

Shearson Lehman forecast that if the Conservative Party wins the general election next year, it would probably introduce a large-scale privatisation programme, raising about FFr30bn in 1993 and up to FFr60bn a year thereafter – equivalent to 0.8 per cent of GDP. Most of the proceeds would be used to repay government debt or reduce its net issuance.

Recent opinion polls and the results of the regional elections earlier this year have suggested that the ruling Socialist Party is unlikely to form the government.

● Reliance, the Indian petrochemical group controlled by the Ambani family, looks set to push ahead with its international equity offering, despite the recent financial scandal in India which has hit stock prices on the local stock market.

Morgan Stanley, lead manager for the $100m equity issue, said pricing is expected to take place "within the next few days" provided market conditions were favourable.

The deal, which marks the first time an Indian private sector company has issued an international share offering, is to help finance a gas cracker.

American Express in SEC filing

AMERICAN Express Receivables Financing has filed with the US Securities and Exchange Commission to securitise certain of its credit card receivables, Reuters reports from New York.

The deal will be the first by the company, part of the American Express group.

American Express said its Lehman Bros brokerage unit would serve as underwriter for any securitisation transaction.

Revolving credit receivables excluded from the proposed deal are American Express' Optima credit card, an American Express spokeswoman said.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on May 19

U.S. DOLLAR STRAIGHTS · OTHER STRAIGHTS · DEUTSCHE MARK STRAIGHTS · FLOATING RATE NOTES · SWISS FRANC STRAIGHTS · CONVERTIBLE BONDS · YEN STRAIGHTS

Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	21	28	31
Other Fixed Interest	1	5	11
Commercial, Industrial	382	262	802
Financial & Property	195	92	509
Oil & Gas	18	31	38
Plantations	0	0	9
Mines	14	30	101
Others	33	32	63
Totals	664	480	1,564

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Am'nt Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] ... other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. ¶¶ Reintroduction. ‡ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings May 18
- Last Dealings June 5
- Last Declarations August 20
- For settlement Sept. 1

3-month call rate indications are also shown on this page.

Calls in ASDA, Benson Group, BTR warrants'94, Bulgin A, Cabra Ests., Comac, Ferranti, ML Hldgs., Mountleigh, Ratners, Saatchi & Saatchi, Tarmac and Wembley. Puts and calls in Ossory Ests. and Tarmac.

LIFFE EQUITY OPTIONS

Option	Calls			Puts		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

May 19 Total Contracts 29,821
Calls 22,395 Puts 8,426
FT-SE Index Calls 2,168 Puts 2,734
Euro FT-SE Calls 650 Puts 582
*Underlying security price. † Long dated expiry months.
Premiums shown are based on middle prices.

TRADITIONAL OPTION 3-month call rates

Stock	p	Stock	p	Stock	p	Stock	p	Stock	p
■ INDUSTRIALS		Charter Cons.	37	Ladbroke	18	Sears	8½	■ OILS	
Allied-Lyons	48	Comm Union	34	Legal & Gen	29	SmKl Bchm A	60	Aviva Pet	25
Amstrad	6	Courtaulds	43	Lex Service	22	TI	55	BP	18
Astec (BSR)	3	Eurotunnel	32	Lloyds Bank	32	TSB	11½	Burmah Castrol	48
BAT Inds	58	FKI	6	Lonhro	12	Tesco	22	Conroy Pet	8½
BOC	53	FNFC	7	Lucas Inds	12½	Thorn EMI	63	Gaelic Res	½
BTR	35	Forte	19	Marks Spencer	27	T & N	11½	Premier Cons	2¼
Barclays	29	GKN	33	Midland Bank	30	Unilever	70	Shell	35
Blue Circle	24	Gen Accident	38	NatWest Bank	28	Vickers	15	Tuskar Res	½
Boots	34	GEC	17	P & O Dfd	37	Wellcome	75	■ MINES	
Bowater	60	Glaxo	52	Racal Elect	5½	■ PROPERTY		RTZ	47
Brit Aerospace	26	Grand Met	38	RHM	18	Brit Land	16		
British Steel	7	GRE	13	Rank Org	55	Land Sec	30		
Brit Telecom	25	Hanson	18	Ratners	3	MEPC	26		
Cadburys	38	ICI	95	Reed Intl	44	Mountleigh	1½		

Dowty estimates £29m in defence

By Richard Gourlay

DOWTY GROUP, the aerospace and specialist engineering company, yesterday produced a robust response to the hostile £497m bid from TI, estimating pre-tax profits for the year to the end of March 1992 of £29m.

The unaudited figure was £8.5m higher than the assumption TI made of Dowty's profits in its offer document and also £4m higher than the figure Cazenove, Dowty's brokers, had expected before the bid.

Mr Bruce Ralph, Dowty chief executive, said the 1992 profits on their own showed the 183p bid and TI's cash alternative of 175p were too low. Accusing TI of being obsessed with the past, Mr Ralph said the offer also grossly undervalued Dowty's prospects. Dowty closed 2p lower at 179p.

Dowty also drew on forecasts from the world's airframe builders to highlight an estimated £9.8bn of future sales it would make on current aircraft programmes in the next 10 to 15 years.

The higher-than-expected profits estimate arose from a restructuring that included the cutting of a fifth of the Dowty workforce – or 3,000 people – in the first nine months of the financial year. The benefits had begun to work through in the last quarter.


Bruce Ralph: TI obsessed with the past

Initial reactions from institutional shareholders was that Dowty had at least dealt itself back into the game after letting TI make all the moves since it launched the bid almost a month ago.

However Dowty would need to convince the City and shareholders that aerospace profits had bottomed out. It would also have to produce a vision for the aerospace division that went beyond simply enjoying the benefits of recovery in the industry in the next two years and the cost-cutting programme.

Dowty has wanted to turn its shareholders' attention away from the dire performance of last year to the more promising future. But it is unlikely to be able to produce a forecast for the year to March 1993.

Mr Christopher Lewinton, TI's chairman and chief executive, said there was nothing in the document to alter his view that TI's final offer fully valued Dowty and its prospects.

Dowty derived its £29m pre-tax profits from operating profits of £28m in aerospace, £9.5m from polymer engineering, £11m from electronic systems – which analysts said suggested a very strong recovery in second half – and losses of £4m in information technology.

See Lex

Customers likely to stay with enlarged bank

By John Authers

LLOYDS BANK would not expect to lose a significant proportion of Midland Bank's customer base if its proposed takeover was successful, Mr Brian Pitman, the bank's chief executive, said yesterday.

He pointed to the recent merger of ABN and Amro, the Dutch banks, where he said a tiny percentage of customers had deserted the new bank, and to the sale by Midland of Crocker Bank to Wells Fargo. "There was a fear that they would lose many customers, but they didn't," he said.

However, he did not follow up the commitment Lloyds made last week to provide support for small businesses with any equivalent promise for private customers.

He said the bank may make further commitments to private customers, and promised that integration of products would involve keeping the better product provided by the two banks in each case. But he declined to comment further on what Lloyds might offer.

He said integration of the banks' products, including changes to cheque books and charge cards, could start "quite quickly" after the passing of the act of parliament which would be needed before the merger could go through.

Until this happened, Midland Bank would operate as a subsidiary of Lloyds, and its products would remain unchanged. He predicted that the process would start by the end of 1993.

THE BATTLE FOR MIDLAND

The Bank of England has now been given formal permission for Hongkong and Shanghai Banking Corporation to buy Midland Bank, having already given the banks guidance that such a deal would be allowed, writes Robert Peston.

Having been given this permission, Hongkong Bank now has the right to buy Midland shares in the stock market to add to its existing 15 per cent stake. However, it is understood that Hongkong Bank is reluctant to exercise this right for the time being.

Midland has suggested that product integration would be a difficult process.

Lloyds also revealed a few extra details about the mechanics of the changes it would make to the new combined bank's product range:

- Midland's range of credit cards, including the "affinity" cards which at present do not carry an annual charge, would be maintained;
- Firstdirect, Midland's telephone banking subsidiary, would be expanded;
- Midland Life, Midland's life assurance company, would continue to operate separately thanks to the difficulties involved in merging life companies, although Lloyds would look to extend its successful Black Horse Life range of products to existing Midland customers.

Mr Pitman said that the transition would be made "as smooth as possible" for both Lloyds and Midland customers, and remained very optimistic that this could be achieved, despite the doubts of some observers.

Fall in US rates check growth at Sedgwick

By Richard Lapper

SURPRISING falls in rates in the US insurance market have held back profit growth at Sedgwick, the insurance broker, which yesterday reported pre-tax profits of £41.5m for the first quarter to March 31, marginally down on the £42.6m recorded last year.

Earnings per share were 6.4p (6.6p).

Operating income grew to £178m (£169m) with expenses rising to £147m (£139m), increases of 2 per cent at constant exchange rates.

Although insurance underwriting contributed £200,000 this was offset by a fall in investment income to £13.3m (£14m) and the share of profits earned by associates to £600,000 (£900,000).

Interest payable rose to £3.6m (£2.6m).

A strengthening in the US dollar was worth £1.3m to the group.

Insurance rates in the London market have continued to increase but weakness in the US market, which contributes between 35 and 40 per cent to the group's turnover, has undermined growth.

Mr David Rowland, chairman, said US rates had fallen by between 12 and 15 per cent in the first quarter. "No-one was expecting a glorious upswing but that it softened again was a surprise."

Hinting at continual pressure on the group's US expenses Mr Rowland said Sedgwick saw "no sign of any change."

Apollo Metals falls to £711,000

Apollo Metals reported pre-tax profits of £711,000 for the six months to March 31, against £969,000. Turnover fell from £14.3m to £12m.

Earnings per share were 3.4p (4.8p). But the interim dividend is being maintained at 1.15p.

Gearing remained at less than 10 per cent. Interest payments dropped from £100,000 to £58,000.

Yorkshire Water in engineering joint venture with Babcock

By Peggy Hollinger

YORKSHIRE WATER and Babcock International yesterday unveiled a joint venture aimed at tackling engineering opportunities in the rapidly-changing global water industry.

The move marks a further step in the diversification programme of the recently-privatised water companies. Until now, many have largely concentrated on diversifying into waste management.

Babcock International will pay Yorkshire Water £5m for 50 per cent of the new company, to be called Babcock Water Engineering.

BWE will comprise Yorkshire's engineering subsidiary – employing 400 engineers and support staff – and about 20 Babcock employees. The chairman will be Mr Eric Masell, who joined Babcock last year to advise on opportunities in the water sector.

Initially, the company will rely on business supplied by Yorkshire Water, which currently feeds about 70 per cent of its £300m per annum capital spending through its engineering subsidiary, Yorkshire Enterprises. Sir Gordon Jones, chairman of Yorkshire, said that the venture would retain the orders only if competitive. "They will have to fight for business," he said.

Yorkshire's current capital spending programme is expected to benefit BWE for three years. By 1995, the company is forecast to have about 20 per cent of its business from customers other than Yorkshire.

Sir Gordon said his company's engineering subsidiary would benefit from Babcock's international exposure and marketing expertise. There were several other markets which were moving towards privatisation – such as North America, Australia and eastern Europe – where Yorkshire's expertise in the water sector could be put to good use.

The deal also pushes forward the company's programme to achieve 10 per cent of group profits from non-regulatory businesses within five years of privatisation. "The non-regulated businesses will grow," Sir Gordon said. "The regulated side will only ever get more regulated."

Analysts cautioned against too much optimism, however, saying the venture was only a drop in the bucket of Yorkshire Water's total business. Based on company estimates that the joint venture might achieve sales of £300m in five years, profits would be about £10m compared with a forecast £185m for the group as a whole by 1997.

See Lex

Kunick drops to £5.9m loss

By Peggy Hollinger

KUNICK, the amusement machine and nursing homes group, plunged into the red in the first half as £6.2m in property write-downs and restructuring charges wiped out depressed trading profits.

Pre-tax losses, after the exceptional charges, came to £5.9m for the six months to March 31, compared with a profit of £5.2m last time. Turnover rose marginally to £58m.

Mr Christopher Burnett, who is replacing Mr Russell Smith as chairman, said the bulk of losses occurred in the amusement machine operation, where the UK market declined by about 15 per cent. Operating profits fell from £4.7m to £500,000.

The nursing care side reported a 50 per cent increase in operating profits to £1.2m.

Debt of £45m represented 84 per cent of shareholders' funds. There is no interim dividend.

● COMMENT

The company has been left well and truly reeling by the triple whammy of recession, fruit machine stake increases and fewer pubs following the intervention of the Monopolies and Mergers Commission. So much so, that Kunick has even had to offer the brewers a hefty £5.5m up front to allow its machines through the door and preserve some sort of steady, longer-term business. Whether it can survive the impact of recent trials depends on several factors: property disposals, rapid cost-cutting, and the long-awaited economic upturn. The market appears to be pessimistic and the shares – which were 38p in September – fell 3p last night to close at 6¼p. Certainly, the fact that analysts are betting on Kunick having to negotiate new interest covenants with bankers does not offer comfort. Forecasts are for losses of about £4.8m after the exceptionals.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Allied-Lyons	fin	13.35	July 31	12.54	20	18.81
Anglo Irish Bank	int	1.36◆†	-	1.36	-	3.36
Apollo Metals §	int	1.15	July 10	1.15	-	3.45
BOC Group	fin	.11	Aug 3	10.2	22	21.54‡
British Airways	fin	7.24	July 24	6.05	10.18	8.85
Capital Radio	int	1.75	July 17	1.75	-	5.25
Concentric	int	3.54	July 6	3.54	-	11.17
Countryside Prop	int	1.41	Sept 3	1.41	-	4.11
Hospital Corp	fin	nil	-	0.1	nil	0.1‡‡
IAWS	int	1◆	July 16	1	-	2
Jermyn Invest	fin	1.5	-	3	1.5	3
Kunick	int	nil	-	0.8	-	1.4
Leeds Group	int	3.5†	July 1	3	-	9.75
Reedicut	fin	2.81	-	2.81	3.44	3.44
Stratton Inv Tst	fin	1.7	July 6	1.66	1.7	1.66
Tunstall Group	int	2.25	July 22	2.15	-	5.35
Young (H) Hldgs	int	2	July 17	2	-	6

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡‡For 15 months. ‡Includes special 0.14p. ◆Irish currency.

LEGAL NOTICES

Company No [illegible]. Registered in England and Wales
BARLEC RICHFIELD LIMITED
Principal place of business: Foundry Lane, Horsham, West Sussex, RH13 5PX
NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at: Orchard House, 30 Albion Place, Maidstone, Kent, ME14 5DZ on Thursday 28 May 1992 at 10.30am for the purpose of having laid before it a copy of the report prepared by the Administrative Receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.
A proxy form is enclosed. Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:
(a) they have delivered to us at the address shown above, no later than noon on 27 May 1992, written details of the debts they claim to be due to them from the company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
(b) there has been lodged with us/us any proxy which the creditor intends to be used on his or her behalf.
Please note that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.
Signed N J Vooght. Joint Administrative Receiver. Dated 13 May 1992

Company No [illegible]. Registered in England and Wales
BISHOPCROSS LIMITED
Principle place of business: Foundry Lane, Horsham, West Sussex, RH13 5PX
NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at: Orchard House, 30 Albion Place, Maidstone, Kent, ME14 5DZ on Thursday 28 May 1992 at 10.00am for the purpose of having laid before it a copy of the report prepared by the Administrative Receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.
A proxy form is enclosed. Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:
(a) they have delivered to us at the address shown above, no later than noon on 27 May 1992, written details of the debts they claim to be due to them from the company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
(b) there has been lodged with us/us any proxy which the creditor intends to be used on his or her behalf.
Please note that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.
Signed N J Vooght. Joint Administrative Receiver. Dated 13 May 1992

Company No [illegible]
MITSUKIKU LIMITED
Nature of business: Dealers in Fancy Goods.
Address of registered office: 15 Old Brompton Road, South Kensington London SW7 3HZ.
Liquidators names and addresses: John Martin Iredale & Nigel John Vooght, Hanover House, 1 George Street, Uxbridge UB8 1QQ. Office holder numbers: 2304 & 6739.
Date of appointment 1 April 1992. Appointed by the Members.
Signed J.M. Iredale
Dated 13 May 1992.
Attested by J.M. Iredale, Chartered Accountant.

Notice of Appointment of Joint Administrative Receivers
COWES EXPRESS LIMITED
(IN LIQUIDATION)
Registered number: 2361734
Nature of business: Transport Services. Trade classification 32. Date of appointment of Joint Administrative Receivers: 28 April 1992. Name of person appointing joint administrative receivers: Lloyds Bank Plc. Instrument conferring power to appoint: Debenture dated 24 May 1990.
Alan Peter Whalley (office holder number 6308), Adrian Richard Stanway (Office holder number 2665) Joint Administrative Receivers. Cork Gully, 5 Town Quay, Southampton SO9 1ZD

Company Number [illegible]
Registered in England and Wales
[illegible] Electrics ([illegible]) Limited
In liquidation
We, M Pallos ACA and J M Iredale FCA of Cork Gully, Abacus Court, 6 Minshull Street, Manchester M1 3ED, hereby give notice that we were appointed Liquidator of the above company at a meeting of members duly convened and held on 11 May 1992.
Signed M Pallos, Joint Liquidator
J M Iredale, Joint Liquidator
Dated 12th May 1992

Notice of Appointment of Joint Administrative Receivers
WIGHT AIR LIMITED
Registered number: [illegible]
Nature of business: Air Transport Services. Trade classification 29. Date of appointment of Joint Administrative Receivers: 28 April 1992. Name of person appointing joint administrative receivers: Lloyds Bank Plc. Instrument conferring power to appoint: Debenture dated 14 September 1988.
Alan Peter Whalley (office holder number 6308), Adrian Richard Stanway (Office holder number 2665) Joint Administrative Receivers. Cork Gully, 5 Town Quay, Southampton SO9 1ZD

Notice of Appointment of Joint Administrative Receivers
COLES MARINE SERVICES LIMITED
Registered number: [illegible]
Nature of business: Managers of shipping property and companies. Trade classification 30. Date of appointment of Joint Administrative Receivers: 28 April 1992. Name of person appointing joint administrative receivers: Lloyds Bank Plc. Instrument conferring power to appoint: Debenture dated 8 November 1990
Alan Peter Whalley (office holder number 6308), Adrian Richard Stanway (Office holder number 2665) Joint Administrative Receivers. Cork Gully, 5 Town Quay, Southampton SO9 1ZD

NOTICE OF APPOINTMENT OF ADMINISTRATIVE RECEIVERS
VACATION CARE CUSTOMER SERVICES LIMITED
Registration No.: [illegible]
Former Company Name: Advisor ([illegible]) Limited
Customer Services
Trading Name: Vacation Care Customer Services
Nature of Business: Travel Agents
Trade Classification: 81
Date of appointment of administrative receivers: [illegible] May 1992
Name of person appointing the administrative receivers: Barclays Bank PLC
Administrative Receivers: [illegible] and Peter Michael Appleby FCA
Latham Crossley & Davis
45 Cornhill Street, London [illegible]
Office Holder Numbers: [illegible]

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COMPANY NEWS: UK

Cost containment helps BOC advance to £163m

By Paul Abrahams

BOC, the UK industrial gases and healthcare concern, yesterday reported pre-tax profits up 12 per cent from £144.7m to £162.7m for the six months to March 31.

The company said most markets had failed to show tangible signs of a recovery and warned that hitherto buoyant areas such as Japan were experiencing a slow-down in growth rates. Earnings per share increased 11 per cent from 19.14p to 21.3p.

Most of the improvement had been through cost-containment. Currency gains accounted for £4m of operating profits, according to Mr Ian Clubb, finance director. He said without them, pre-tax profits would have increased 9 per cent.

"We feel comfortable with the results," said Mr Clubb. "If the much talked-about upturn in the world economy takes place, the company will be well-placed to take advantage of it."

The gases businesses experienced mixed fortunes as operating profits increased 6 per cent from £136m to £144.5m on turnover of £1.01bn (£932.5m).

Mr Clubb said demand for liquefied gases for general purpose use had increased in the UK and US by about 4 to 5 per cent over the past few months compared with last year.

However sales of compressed gases, used for welding and cutting, had not picked up. Sales of piped gases for bulk users had also remained flat. The plant design and construction businesses had experienced a fall in demand.

Operating profits at the healthcare division increased 22 per cent from £40.7m to £49.8m on turnover of £291m (£268.8m).

Mr Clubb said rationalisation at Glasrock, the home health care operation, meant it was only two-thirds of its previous size, but that it was now showing a modest profit. The US pharmaceuticals operations performed particularly well.

The vacuum technology and distribution services operations' operating profits were severely affected by the recession, falling from £12.6m last year to £6.8m on turnover of £131.9m (£126m).

Results at the distribution services business improved their results and all of the fall was due to the vacuum side of the operations. Mr Clubb said sales of pumps for the semiconductor industry had been suffering from a freeze on capital expenditure.

A second interim dividend of 11p was declared, representing an increase of 8 per cent in the annual dividend.

BOC's shares fell 15p to 703p on profit-taking.

Ashley Ashwood

Pat Rich (left), BOC's chairman, and Ian Clubb

Conservative accounting leaves HCI with £21.4m loss

By Peter Pearse

HOSPITAL Corporation International Group, has reported pre-tax losses of £21.4m for the nine months to December 31. The company was created in January when Hospital Corporation International of the US reversed into Bioplan Holdings, the UK healthcare group.

Operating losses of £2.82m were swelled by £16.8m of exceptional charges, derived mainly from the new management's adoption of a more conservative approach to Bioplan's accounting policies.

The write-downs on overall property asset values went deeper than had been anticipated at the time of the merger and the capitalised interest and capitalised overheads have been reversed out. Restated pre-tax losses for the 15 months to March 31 1991 were £113,000.

Mr Dennis Sokol, chief executive since the merger and chairman since February, said that Bioplan's evaluations of its hospitals were overstated.

In spite of its £22.3m rights issue in May 1991, raised to fund the hospital building programmes, the group ran into "considerable financial difficulties" in the latter half of 1991. Its shares were suspended at 44p in November. They closed at 15½p yesterday, down ½p.

Mr Sokol said that HCI Group was "now a real company, rather than a development business". He has restructured the board, bringing in Mr James Mills-Webb, formerly finance director at AMI Healthcare, as finance director, and Mr Anthony Bryan, Sir David Rowe-Ham and Sir Ronald Grierson, as non-executives.

Mr Sokol said the company was in partnership with the NHS in 70 per cent of its hospitals and that it now had 37 per cent more beds, on an annualised basis, than last time, though he conceded that occupancy needed building.

Turnover in the nine months totalled £11.1m (£16.3m for 15 months). An extraordinary charge of £1.26m related to losses on the sale of Bioplan's furniture business. This led to losses for the period of £22.7m (£1.47m). Losses per share emerged at 54.9p (earnings 4.6p).

Arjo Wiggins chairman quizzed over Walls' sacking

By Paul Abrahams

A DEFENSIVE Mr Cob Stenham, chairman of Arjo Wiggins Appleton, the Franco-British paper company, was yesterday repeatedly asked at the annual general meeting to explain last week's sacking of Mr Stephen Walls, the group's chief executive.

In a pre-prepared speech to shareholders, Mr Stenham gave no reasons for Mr Walls' departure. However, on four separate occasions he was subsequently asked by shareholders for an explanation.

Mr Stenham, sitting next to Mr Walls, denied an acquisition had been responsible for the differences between the board and its chief executive.

He also insisted Mr Walls' departure did not signify a change of strategy.

The company was still aiming to become the world's leading manufacturer of high-value paper and become the sector's most profitable group.

There was no conflict of interest between minority shareholders and other shareholders, said Mr Stenham. The group would be run in the interest of all shareholders. Worms et Cie, the French financial company, indirectly owns 39 per cent of AWA.

Mr Nicholas Clive Worms, a non-executive director, said AWA was looking consistently at opportunities, in particular the northern countries, such as the Netherlands, Germany and southern Europe. However, a number of these were involved in joint ventures dealing in newsprint and pulp. They were areas AWA did not want to participate in. He said AWA still needed to consolidate, particularly in the area of carbonless paper in Europe.

Mr Stenham said he was looking at possible replacements for Mr Walls. They included one internal candidate.

A special resolution to allow the company to buy up to 80m of its own shares, equivalent to 10 per cent of all shares, was passed.

Mr Stenham denied this was part of a devious scheme to increase the proportion of shares owned by the French minority shareholders.

Mr Walls remained quiet for most of the meeting, but answered questions on women employees and the environment.

Rationalisation helps Readicut

By Angus Foster

READICUT International, the household textile, carpeting and yarn company, weathered recession in its main markets to report profits at the top end of market expectations.

The company announced a 11.6 per cent increase in pretax profits to £13.5m in the year to March 31, despite a fall in turnover to £220m (£226m).

Professor Sir Roland Smith, chairman, said tight cost controls introduced in the last two years led to a "quite remarkably profitable performance".

The workforce was cut by 5 per cent in the UK, with additional cuts in the US and the Netherlands, at a cost of £639,000. This follows an 11 per cent cut in the previous year.

Mr Clive Shaw, managing director, said the UK's recession had bottomed out and the US was improving. But continental Europe remained depressed – "1992 is going to be tough there", he said.

Interest costs fell steeply to £3.67m (£3.54m) due to lower interest rates and reduced net borrowings of £11.5m (£12.8m), equal to 19 per cent of shareholders' funds (21 per cent).

Earnings improved to 4.79p (4.25p). The company is recommending a maintained final dividend of 2.81p to make an unchanged total of 3.44p. Dividend cover improved from 1.2 times to 1.4 times.

There was an extraordinary charge of £1.37m due to Firth Furnishing's withdrawal from seating fabrics. The division returned to profit during the period and will begin manufacturing for Ford in Belgium and Honda in the UK.

Readicut's shares were unchanged at 85p.

Sir Roland Smith: tight cost controls in last two years

COMMENT

Readicut's results were well received by the market, which is beginning to see the benefits of the last two years of rationalisation come through. Firth Furnishing's performance and Firth Carpets improved profits, were also pleasing given their respective exposure to the depressed car and retailing sectors. But the company's gloomy forecasts for Europe, and the likelihood of no great improvement in the UK, suggests a return to late 1980s levels of profitability remains elusive. Forecast profits of £15m put the shares on about 15 times, which is below the sector average. Despite a strong run over the last 12 months, the shares can go higher if there are sustained signs of recovery on the high street.

Concentric rises 74% and calls for £12.5m

By Nigel Clark

CONCENTRIC, the West Midlands-based maker of automotive and industrial components and industrial controls, is raising £12.5m net of expenses in a rights issue to fund investment.

The company also announced a 74 per cent increase in interim pre-tax profits from £2.02m to £3.52m on turnover down at £58.7m (£61.2m). The company said the progress made to recover margins was encouraging and the improvement was expected to continue in the present period.

The company is issuing 4.5m shares on a 1-for-5 basis at 285p in the fully-underwritten rights. The share closed 15p higher at 355p.

The proceeds are earmarked for increasing output in the moulded plastic components business and the metal pressing and fabrication business as well as the US offshoot. Funds will also be used to address environmental problems at its iron foundry.

The fall in turnover resulted from a decline in the world price of aluminium, the erratic demand for satellite dishes and the generally flat demand for the group's other products, the directors said.

Many of last year's problems at Concentric Pumps were said to be behind it and Concentric Controls, which had undergone a considerable reorganisation, was trading profitably after a number of difficult years.

In December Yorkshire Moulds moved into a new factory with twice the previous capacity.

After tax of £1.09m (£627,000) earnings per share came out at 10.77p (6.19p). The interim dividend is unchanged at 3.54p and the company expects the final dividend to be at least maintained at 7.63p.

ICS's £15m share placement is 'comfortably oversubscribed'

By Neil Buckley

INTERNATIONAL Control Services, the electronic safety systems manufacturer which is seeking a full listing on the London stock market, said yesterday its £15m share placement had been "comfortably oversubscribed".

At the placing price of 110p, the company will have a market capitalisation of £43.9m. Dealing will start on Thursday, May 28.

ICS Group claims around 12 per cent of its targeted market for safety systems for the oil, gas and petrochemical industry.

Worldwide, the safety market is estimated at around $750m, and expected to grow by up to 12 per cent a year in the next three years.

The company made pre-tax profits of £3.6m for the year to May 1991, on turnover of £51.4m.

This year the directors forecast profits before tax of at least £4.5m, putting earnings per share at not less than 8.9p.

Founded in 1966 as a maker of electronic alarm systems for industry, the company was quick to spot the potential in the North Sea market, and in the words of chief executive Mr Peter Hall has "grown up together with the North Sea fields".

It was, however, tougher safety requirements in the North Sea in the wake of the Piper Alpha disaster, enshrined in the Offshore Safety Act, that led to a fourfold growth in profits in the past four years. The group has built up a client network including BP, Shell, British Gas, Agip, Total, and Chevron.

The company specialises in integrated safety and control systems for industrial processes which detect hazards, and automatically take corrective action, including shutdown where necessary.

While considerable retro-fitting work remains in the North Sea fields, with the provision of safety systems for the new generation of highly-automated offshore platforms, the company is looking for growth in the overseas market, which already accounts for around 30 per cent of turnover.

"The North Sea, and the kind of systems we have developed there, are setting the standards for the rest of the world," Mr Hall said.

ICS is already working in Saudi Arabia, where an extensive retro-fitting programme is under way, and in Kuwait. It has also supplied Singapore, Indonesia and Korea, and has four overseas sales offices.

The placing will raise around £6.6m, net of expenses, to be used to reduce current bank borrowings – leaving the company with gearing at around 25-30 per cent – to repay a £1m loan from 3i, and to redeem certain preference shares held by 3i, the venture capital group.

The directors will control 53.8 per cent of the enlarged share capital; 3i will control 11.99 per cent.

Corporate Services falls into £2.13m loss

By Angus Foster

Corporate Services Group, USM-quoted recruitment company, announced a pre-tax loss of £2.13m in 1991, against a £813,000 profit in the previous nine months. The fall was due to restructuring costs and losses in discontinued businesses.

Turnover increased to £22.2m (£10.9m). Following the company's switch from energy to employment services, completed in 1990, CSG said the two periods were not directly comparable.

The core employment services division expanded last year through acquisitions andreported operating profits of £30,000 (£51,000) on turnover of £20.3m (£2.31m).

Losses per share came out at 9.2p (earnings 4.2p).

£0.5m exceptional charge checks advance at Anglo Irish Bank

By Tim Coone in Dublin

AN EXCEPTIONAL charge of I£500,000 relating to the aborted purchase of Hill Samuel Bank's subsidiary in Ireland, has held down profits at Anglo Irish Bank Corporation which published its results yesterday for the six months to March 31.

Pre-tax profits for the period were virtually static at I£3.25m (£2.96m sterling). Earnings per share declined to 2.69p (3.33p) due to the exceptional item and the 1-for-1 rights issue last January. The issue was 92 per cent subscribed.

Mr Gerry Murphy, chairman, said "these results are highly satisfactory in what is a tough banking climate worldwide. Our advances are up 30 per cent and deposits up 24 per cent ... We have continued to reduce our emphasis on leasing and we have regrouped into two new divisions, corporate banking and retail banking. Results in Ireland are well ahead of targets".

Negotiations over the purchase of Hill Samuel Ireland broke down last month after failure to agree on a cash price for the merchant bank. It has total assets in excess of I£500m. Anglo Irish Bank's total assets are I£831m. Mr Murphy said the decision to withdraw from the Hill Samuel deal "shows our determination to only make acquisitions at the right price for our shareholders".

The family interests of Mr John Clegg continue to hold the largest stake in Anglo Irish with 14 per cent, despite continuing efforts by the board and Mr Sean Fitzpatrick, the chief executive, to persuade them to sell.

Mr Clegg resigned from the boards of Wace and Anglo Irish Bank earlier this year, because of allegations concerning shares dealing by members of Mr Clegg's family.

A senior executive of the bank apparently travelled to South Africa recently to talk to relatives of Mr Clegg who control the 14 per cent holding, to try to persuade them to sell to interested institutional shareholders. The offer was rejected.

Senior Anglo Irish executives believe that such a large private stake in the company overhangs the market for its shares and depresses their price. The Clegg family have consistently followed Anglo's successive rights issues.

Leeds Group jumps by 34% as diversification pays off

By Peter Pearse

LEEDS Group, textile dyer, printer and finisher, yesterday announced a 34 per cent jump in pre-tax profits from £1.87m to £2.51m for the six months ended March 31 1991. The shares rose 14p to 406p.

The company had benefited from diversification – started before the recession – away from its traditional apparel business, and moves from long to short fabric runs.

Mr Robert Wade, chairman and managing director, said Leeds' "steady growth in an unattractive sector" could in part be ascribed to a much more "normal" pattern of trading – last time a satisfactory first quarter was spoiled by a poor second; this time the performance was more "solid" throughout.

Decreasing the reliance on apparel with moves into furnishing fabrics, which had shown growth, and military camouflage, where Leeds has secured seven contracts with non-UK defence ministries, had broadened the base of the company, Mr Wade said, offsetting the 50 to 60 per cent downturn in its conventional apparel business.

He pointed to the contribution of Strines Textiles, the high-tech printer acquired last April which caters to the top end of the market, in particular making dress prints for Liberty, the fabrics retailer. Strines added £400,000 to group profits after acquisition costs.

The fall in demand for volume production, prompted both by clothing manufacturers' reluctance to commit themselves to long print runs, and the flighty demands of the fashion industry, was more than compensated by Leeds' concentration on short-run contracts.

On these, some efficiency is lost, but delivery times are greatly shortened. The ability to leave dyeing or printing as late as possible in the production process – producer colourisation – also helps speed up response to demand.

Group turnover rose 48 per cent to £30.4m. The interim dividend is lifted 17 per cent to 3.5p (3p), payable from earnings per share – diluted by the 1m shares issued in the acquisition of Strines – up from 11.5p to 14.2p.

COMPANY NEWS: UK

Staying aloft amid a stream of approaches

Paul Betts on British Airways' strategy to stay ahead in a highly-competitive market

GLOBALISATION remains the buzz-word at British Airways. But the airline, which impressively more than doubled pre-tax profits for the year to end-March, said yesterday it was in no hurry to find a partner.

"We want to be the global leader in our industry and we firmly believe we need to find strong partnerships for the future," explained Sir Colin Marshall, BA's chief executive. "But we feel no urgency to rush into anything: we are a strong, financially solid company that can withstand competition", he added.

The carrier was clearly disappointed by the collapse in February of its efforts to merge with KLM Royal Dutch Airlines: a partnership which would have strengthened its position in continental Europe and other international markets. It would also have had significant implications on the airline industry as a whole, accelerating the trend towards greater airline concentration.

It was also the third unsuccessful attempt by BA in barely three years to forge an equity partnership with another carrier following the failure of earlier efforts to link-up with United Airlines of the US and Sabena of Belgium.

But with its strong recovery last year, and one of the healthiest balance sheets in the airline industry, BA has clearly become wary of entering into any deal which risks undermining its turnaround. Lord King, the chairman, put it bluntly yesterday when he said: "We don't want to consolidate someone else's losses".

However, he added that finding a partner remained high on BA's agenda but "in the meantime bachelorhood continues to be both agreeable and profitable". Indeed, BA is not looking just for one partner but strong allies in its three leading markets: Europe, North America and Asia.

Although BA is not now talking to KLM, contacts between the two carriers could conceivably resume at some later stage. In the Asia-Pacific area, the airline is understood to be interested in taking a stake in Qantas, the Australian international carrier, as well as in Australian Airlines, the domestic carrier. But it is facing competition from Singapore Airlines and Japan Air Lines. BA is also scouting the US for a possible deal.

Sir Colin indicated the airline received a steady flow of approaches from other carriers. "We get two a week on average", he said.

But while BA, in the standard pilot's jargon at the beginning of every flight, sits back and relaxes as it waits for a partnership opportunity of its liking, it has taken comfort at its success in coming out of the industry's worst-ever recession with improvements in all of its principal markets.

In Europe, where the airline lost £10m last year, BA made an operating surplus of £20m, despite difficult trading conditions in the UK and a big reversal in Germany following the impact of re-unification.

Sir Colin Marshall: no urgency to rush into anything

In America, BA saw only a small decline in operating profits from £123m to £119m, although it faced acute competition across the North Atlantic with the arrival of new US carriers such as United and American Airlines at Heathrow, its London home base.

The UK government's decision last year to open up Heathrow to new competition put pressure on BA, with 17 new carriers moving into the airport. But BA still managed to increase its market share.

The biggest boost came from the strong recovery in the Middle Eastern, African and Indian subcontinent routes, which earned an operating surplus of £119m last year compared to only £13m previously. This largely reflected the recovery from the dramatic effects of the Gulf war on business.

There was continued growth in Asia-Pacific, with BA's operating profits more than doubling from £41m to £86m despite slower growth in Japan.

Continued improvements in traffic are expected this year as business recovers from last year's slump caused by the combined effects of the Gulf war and the recession. In the near-term, Sir Colin expected to see traffic rising by some 10 per cent in each of the coming two to three months over the levels of two years ago before the Gulf war started.

But BA is likely to face even fiercer competition this year as US carriers launch a new offensive on the North Atlantic routes and as liberalisation spreads in Europe and other markets. Sir Colin acknowledged BA would need partners to cope with the new era of deregulation. But Lord King added that the company, for the time being at least, had no intention to "act in haste and repent at leisure".

NEWS DIGEST

Countryside Props falls to £2.04m

COUNTRYSIDE Properties, the residential, commercial and industrial property company, reported a pre-tax profit of £2.04m for the six months to March 31 1992.

The result compares with £3.06m last time and was struck on turnover up from £32.7m to £42.3m and after an exceptional charge of £1.02m relating to additional provisions against some residential development sites.

Group trading profit was £5.6m, with residential accounting for £5.9m. Commercial made £200,000, offsetting a £500,000 loss by property investment.

The interim dividend is being maintained at 1.41p, payable from earnings per share of 3.2p (6.6p).

Difficult trading for Capital Radio

Capital Radio, the independent radio broadcaster for London, saw its pre-tax profit for the six months to March 31 fall 18 per cent from £5.01m to £4.11m in continuing difficult trading conditions.

Operating costs increased by almost £1m to £11.1m as a result of a planned increase in spending on audience promotional activities and costs relating to independent radio's dispute over royalty rates to record companies.

Turnover advanced 3 per cent to £16.2m (£15.7m). Earnings per share were 3.9p (5p) but the interim dividend has been maintained at 1.75p.

There was an extraordinary credit of £1.58m from the sale of the Duke of York's Theatre.

Jermyn Investment £0.77m in the red

Jermyn Investment Co, the shares and property investor, tumbled to a pre-tax loss of £772,727 for the year to December 31 1991 compared with profits of £267,538 in 1990.

The result was after an exceptional £650,000 write-down in the value of investment properties.

The loss per share amounted to 49.75p (3.51p earnings) but a final dividend of 1.5p (3p) is proposed as a "measure of confidence in the future."

Net property income rose to £123,672 (£106,722) while income from fixed asset investments fell to £63,723 (£72,894).

Stratton Inv Trust net asset value rises

The net asset value per share of Stratton Investment Trust stood at 183p at the year ended March 31 1992 against 178p a year earlier.

Total revenue, including bank interest and underwriting commissions, grew from £749,000 to £792,000.

Earnings per share came out at 2.28p (2.6p), as a consequence of which the dividend is reduced to 1.7p (1.86p).

H Young advances 13% to £427,000

H Young Holdings, the optical, automotive, horticultural and electronics group, showed a 13 per cent advance from £377,000 to £427,000 in pre-tax profits in the half year to end-March. Turnover was up by £1m to £15.6m.

At the operating level profits advanced by 51 per cent from £422,000 to £638,000 but the interest charge surged from £45,000 to £211,000.

After tax of £141,000 (£101,000) earnings per share were unchanged at 1.7p. The dividend is held at 1.7p.

During the year the optical division acquired Shades sunglasses business and the distributorship of Nikon equipment for eye testing.

Tuskar Resources recommends offer

The board of Tuskar Resources, the Irish exploration company, yesterday recommended acceptance of an all-share offer for the company made last March by Australian exploration company Coplex.

Tuskar's main assets are its exploration licences in the Rubiales and Piriri oil fields in Colombia. It sold a 54% stake in these to Coplex last month, in order to finance the completion of a drilling programme, under the terms of the licence arrangements.

The Coplex bid is a one-for-twelve share-swap offer which values Tuskar at I£4.67m.

Tunstall moves 20% ahead to £2.55m

Tunstall Group, which makes, installs and services security and emergency communications equipment, lifted pre-tax profits by 20 per cent in the six months to March 31.

On turnover just ahead to £19.6m (£19m) the pre-tax result came out at £2.55m against £2.13m and included net interest received of £89,000 against £214,000 charged.

The interim dividend is stepped up to 2.25p (2.15p), payable from earnings per share of 10.2p (8.4p).

IAWS advances to I£880,000

IAWS Group, Dublin-based fertilisers and agri-business company, reported a substantial rise in interim pre-tax profits from I£34,000 to I£880,000, or £803,000, in the half year to January 31. However, the company said the figures were not indicative of the full year as most of its profits were earned in the second half.

Turnover was I£183m (I£162m) and after tax of I£120,000 (I£83,000) and lower minorities of I£50,000 (I£253,000) attributable profits were I£710,000, against losses of I£302,000.

Earnings per share were 0.7p (0.3p losses). The interim dividend is unchanged at 1p.

Commission fights against dilution of CAP reforms

By David Gardner in Brussels

THE European Commission and the current Portuguese presidency of the EC were last night still locked in negotiations as Brussels sought to resist dilution of its planned reform of the Common Agricultural Policy by farm ministers of the Twelve.

Hard bargaining between Mr Ray MacSharry, EC agriculture commissioner, and Mr Arlindo Cunha, the Portuguese agriculture minister currently heading the farm council, delayed resumption of the ministerial meeting, which broke off on Monday afternoon for bilateral negotiations the Commission and Presidency held with each member state.

The cause of the impasse was last month's fourth attempt by the presidency to strike a compromise, which suggested lowering cereals prices to only Ecu112 a tonne, or by 27 per cent from current prices, against the Ecu100 per tonne sought by the Commission – a 35 per cent drop.

Because the cereals chapter is the core of the MacSharry reform, he was said by aides last night to have dug in his heels and refused to budge. One source said a likely new compromise was Ecu110 per tonne.

Germany wants a far less severe reduction in price than even the Portuguese compromise, while France fears that if the price does not come down far enough, its competitive grains exporters will be hit by greater "set-aside" requirements to restrain production.

A new compromise paper was expected late last night, to enable ministers not only to judge the cereals price target, but to a range of tightly knotted problems to be resolved in the livestock and dairy sectors.

These cannot be given full consideration until the cereals issue is resolved, since the lower cost of grain as feedstock is part of the compensation promised livestock farmers for also accepting severe price cuts.

With the Council of Ministers as such not sitting for all but a few minutes of the first 36 hours of a meeting which could run all week, there was doubt that the agreement in principle on the reform package the Commission and Presidency were seeking this week could be reached.

Pechiney smelter 'breaking even'

By Kenneth Gooding, Mining Correspondent, in Dunkirk

PECHINEY'S new $1bn aluminium smelter at Dunkirk already is producing at its full annual capacity rate of 215,000 tonnes and, in spite of the seriously depressed market conditions, is breaking even financially, said Mr Bernard Legrand, an executive vice president and head of the state-owned groups's world wide aluminium operations, yesterday.

The smelter, brought into operation in 23 months just ahead of schedule and slightly under budget, will produce 180,000 tonnes of aluminium this year, account for half of France's output of the metal and confirm Pechiney's position as the world's third largest producer.

It will boost Pechiney's total output this year by about 100,000 tonnes from the 1991 level to 870,000 tonnes, said Mr Legrand when his group showed the smelter to the press for the first time. Pechiney is the second largest supplier of aluminium to the free market in the western world after Alcan of Canada and means to retain that position.

Mr Legrand said Pechiney had turned down approaches by two European competitors wishing to share Dunkirk's output. "This going to be low cost aluminium and we quickly decided we wanted it all for ourselves," he said.

As planned, Pechiney has closed two old smelters in France and has been forced by market conditions to curtail production at its Vlissingen smelter in the Netherlands.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+1,775	to 1,233,480
Copper	-6,550	to 288,200
Lead	+325	to 136,675
Nickel	+306	to 27,360
Zinc	+1,200	to 236,150
Tin	[illegible]	to 12,110

Dunkirk produces low cost aluminium partly by using high technology and partly because it benefits from a favourable electricity supply contract signed with Electricite de France (EDF), which is also a state-owned company. The project originated because EDF had substantial excess nuclear power capacity.

Pechiney has a 35 per cent shareholding in Aluminium Dunkirk, the company which owns the Dunkirk smelter, and private investors own the rest. The group also has a one-third share in the Dunkirk operating company with the rest of the equity shared by the ownership company and EDF.

Pechiney is responsible for ensuring the smelter's supply of alumina – all 400,000 tonnes of this essential raw material is coming this year from Alcoa's subsidiary in Surinam.

Mr Jean Gandois, Pechiney's chairman, said yesterday that the project showed there was still a place for large, heavy industrial projects in Europe. The smelter emits virtually no pollution and its productivity is claimed to be the best in the world – 400 tonnes a year for each member of the work force by the end of 1992. It employs 550 directly.

It also brings FFr2bn positive benefit to the French trace balance. Last year net imports of aluminium to France rose from 405,000 tonnes in 1990 to 424,000 tonnes. Dunkirk also confirms Pechiney's leading role in aluminium smelter technology – two thirds of all new smelters in the past 10 years have employed its technology.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,725-1,750 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.40-3.00 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.80-1.00 (0.90-1.10).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 26-27 (27.50-28.50).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 130-150 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.20-2.25 (2.20-2.30).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.50.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 56-66 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.05-2.15 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 7.75 (same).

Opec can afford a touch of mañana

Mark Nicholson explains why a production agreement is likely to defer hard choices

WHATEVER arguments reverberate around Vienna's hotel suites over the next few days, ministers from the Organisation of Petroleum Exporting Countries gathered therein look likely to reach a production agreement for the third quarter based on deferring for today hard choices which, with luck, may have evaporated tomorrow.

The usual pre-summit posturing has made it clear that debate in the ministerial meeting, opening today, will centre on whether Opec should raise its production ceiling for the quarter by around 1m barrels a day to 24m b/d from the second quarter limit agreed in February.

Saudi Arabia, Opec's predominant producer with a 34 per cent share of the cartel's output, will enter the fray arguing that 24m b/d is the least the cartel should pump for the third quarter to meet a rising appetite for crude from nascent US and European recoveries and what Riyadh believes will be a healthy stock build up over the quarter.

Venezuela has already signalled its approval of such a position and Saudi delegates are said to be confident that their view will be the consensus this week. Moreover, many in the oil market are already discounting a 1m b/d rise, and analysts suggest this will not derail the recently firmer trend in prices.

Mr Mehdi Varzi, oil analyst for Kleinwort Benson, says he sees Brent crude reaching $21-$22 by the end of the third quarter even given an Opec production rise. "We've not seen the peak in prices yet," he says.

In familiar opposition to the Saudi-led view, however, will be the price-hawks Iran, Algeria and perhaps Libya and Nigeria. They will argue with varying force that production should be held at the nominal, and slightly exceeded, February ceiling of 22.98m b/d – or even cut slightly – in the face of stiffening demand, to raise the price for the Opec basket of crudes towards Opec's formal target price of $21 a barrel.

Should the Saudi view prevail, and it will do so only against shrill opposition from Iran, it will be thanks largely to the steady, if unspectacular, recent firming of crude prices, which last week saw the Opec basket price rise to a high since November of $18.45 a barrel.

Many analysts believe this firming should continue in modest tandem with the economic upturn, with prices underpinned by uncertainty over a possible oil embargo against Libya – a factor which remains in the market despite few in the oil industry believing such an embargo is politically feasible.

Some analysts estimate that demand for Opec crude in the third quarter could top 24.5m b/d, rising to just below 25m b/d for the fourth. The Saudis certainly believe that 24m b/d is the minimum required for a balanced oil market in the next quarter – implying that Opec discipline at that level could push prices slightly higher, and thus offer Iran room to concede a higher overall ceiling in Vienna.

The medium-term outlook for prices is also supported by the growing certainty that Iraq will not re-enter the oil market before next year at the earliest. Mr Tariq Aziz, Iraq's deputy prime minister, earlier this month rejected once again the United Nations formula for permitting an exceptional sale of Iraqi crude to pay for humanitarian needs. The Saudis, meanwhile, are privately confident that Iraq will export no oil while Mr Saddam Hussein remains its president.

Without Opec having to face, for this and perhaps the next quarter, the hard choices raised by a return of Iraqi crude to the market, a raised ceiling could - if the Saudis have their way - see the Kingdom raise output to 8.2m b/d from the present 8.02m b/d (thus retaining its 34 per cent Opec share) with an eager Kuwait taking much of the additional slack.

Accommodating Kuwait's rapid resumption of output is something else Opec can better weather in the present market climate. While analysts such as Cambridge Energy Research Associates estimate that Kuwaiti claims to be producing 900,000 b/d may be optimistic by 100,000 b/d, few doubt that the emirate will be far off its target 1.5m b/d by the fourth quarter.

Mr Homoud al Rqobah, the Kuwait oil minister, is likely to stress once again in Vienna that the emirate will not accept any Opec strictures on its oil production – and thus its revenues. A report by the Kuwaiti Al-Shall economic consultancy at the weekend suggesting that the emirate could end up spending nearly a third of total oil revenues this year on servicing debt from its reconstruction borrowing gives some idea why.

If Kuwait feels it has overwhelming economic cause to resist an Opec straitjacket, it is not alone. Saudi Arabia, Venezuela, Iran, Nigeria, and Algeria each have urgent economic and political reasons for maximising their revenues – something which only the former pair can adequately manage at present prices.

Iran, in particular, feels pressed. The continued domestic appeal of President Hashemi Rafsanjani's "moderate" policies, now backed by a strong majority in the recently elected majilis, will depend upon his ability to deliver a swift and tangible improvement in the economic lot of an increasingly bitter and impoverished population.

The force of an Opec majority and somewhat improved prices should bring Iran under the umbrella of a deal to raise production ceilings this weekend, after perhaps three or four days bargaining. But for Tehran, as for high-deficit Saudi Arabia, heavily borrowed Kuwait and politically troubled Algeria and Nigeria, the real hope is for a substantial growth in oil demand towards the end of this year and early next.

While analysts are predicting as much, and while Iraq continues to produce only 500,000 b/d and purely for domestic use, Opec's ministers can afford a touch of mañana about their Viennese deliberations. Certainly any thoughts about fourth-quarter ceilings appear likely to be deferred until a further meeting in September.

'Transitional accord' move to boost coffee market

By Bill Hinchberger in Sao Paulo

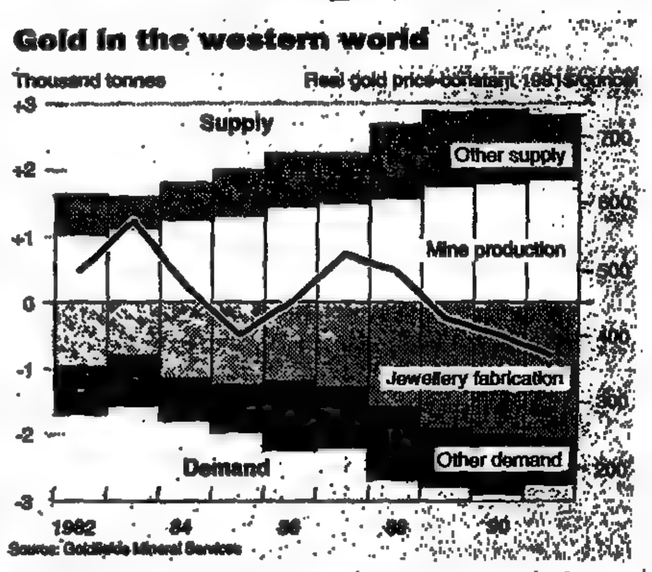
BRAZILIAN and Columbian officials hope to forge a "transitional" accord, to boost the currently depressed coffee market, at the September meeting on the International Coffee Agreement. They believe that some clauses can be ready to take effect as early as October.

This position emerged from a Monday meeting in Rio de Janeiro of representatives of the two governments. They now plan to canvass Indonesia and leading producers in central America and Africa in an attempt to build a consensus among producers at their meeting in London on 27 May. That gathering is in preparation for the coming round of negotiations with consumers in late June.

Brazilian private sector sources say that the initiative for the fast-track transitional pact comes from the Colombians. Some of them doubt whether a consensual agreement can be hammered out in such a short period of time.

Western gold mine output nears a plateau

By David Blackwell



Source: Goldfields Mineral Services

WESTERN MINE gold production is "edging towards a plateau if not a peak," according to the annual survey of the market by Gold Fields Mineral Services.

Mine output was up by only 2 per cent in 1991, the lowest increase for the past 10 years. Nevertheless it was still at a record 1,782 tonnes.

The slowdown in the rate of increase reflects "the increasing difficulty of attracting finance for marginal properties and the depletion, rationalisation or closure of some older mines," the report says.

The total world supply of gold fell for the first time since 1983, to 2,815 tonnes from 2,913 tonnes in 1990. The fall reflects a decline in supplies from the former communist bloc (from 425 tonnes in 1990 to 226 tonnes), and a lower level of hedging by producers.

The impact of forward sales and gold loans – put at a net 40 tonnes – "declined sharply last year owing to the combination of low spot prices, a less attractive forward price, due to lower interest rates, and an absence of price spikes". The lack of demand for gold loans "resulted in a net pay-back of loans from new production rather than a net draw-down of new loans".

Central banks' net sales of gold were 165 tonnes, compared with net purchases of 66 tonnes in 1990. But a bigger shift in the market occurred in the private sector, which offloaded 241 tonnes. The selling included bullion and coins from Europeans, as well as sales from stocks held in Europe on behalf of Japanese and Middle Eastern investors.

On the demand side, jewellery fabrication rose by 4 per cent to 2,111 tonnes and a new record "in spite of the impact of recession."

The report cites stockbuilding by distributors and retail outlets in Europe and the Middle East, as well as a rapid rise in demand from the newly prosperous China.

Other areas of demand, including electronic, dental and industrial uses, remained largely unchanged. However, total hoarding of gold in Latin America, the Middle East and Far East declined.

The report wonders whether "the behaviour of bar hoarders in Asia is now becoming more similar to that of Western investors, with a falling price promoting disillusioned sales rather than bargain hunting purchases".

The gold price averaged $362.26 an ounce, 6 per cent down on 1990 and the lowest real level since the 1970s. Among factors behind gold's fall were the decline in global economic output for only the second time since the Second World War, the rapid resolution of the Gulf war and the easing of political tension with the demise of the Soviet Union.

The outlook should be more positive, with more than a third of production unprofitable and consumer spending and inflation near cyclical lows. But if economic recovery is weak, additional gold sales could be prompted, keeping the lid on prices for some time.

Gold 1992. £50. Gold Fields Mineral Services, Greencoat House, Francis Street, London SW1P 1DH.

WORLD COMMODITIES PRICES

MARKET REPORT

Growing sentiment that producers are close to a unified stance on price supports helped to lift COFFEE prices in London and New York. The July New York arabica contract moved above key resistance at 65.20 cents a lb in early trading. Traders were hesitant to sell despite conflicting reports on whether questions had been reached regarding agreement on shares in any new quota plan, a target price or selectivity, analysts said. In Chicago MAIZE and SOYABEANS were sharply lower at midday in reaction to bearish export, planting, and weather reports. "You are starting to blow people out of here," one broker said of the domino affect of fund selling in the maize market. The pressure spilled over into WHEAT. PLATINUM rose as the London bullion market digested Monday's bullish Johnson and Matthey report. New York platinum futures pared early gains by midday. A 17 per cent fall in US housing starts in April, the biggest drop in eight years, undermined sentiment by pointing to a still-anaemic economy, analysts said. The New York COTTON market was limit down at midday following overnight rain in the Delta region of the US.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$16.85-6.90	-.250
Brent Blend (dated)	$19.20-9.25	-.475
Brent Blend (Jul)	$19.15-9.25	-.350
W.T.I. (1 pm est)	$20.35-0.45q	-.425
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$224-225	-5.5
Gas Oil	$173-174	-2
Heavy Fuel Oil	$75-78	-1
Naphtha	$184-185	-2.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$337.5	-1.1
Silver (per troy oz)♣	410c	+1.0
Platinum (per troy oz)	$362.9	+4.9
Palladium (per troy oz)	$83.50	+0.65
Copper (US Producer)	104.54c	
Lead (US Producer)	37.00c	
Tin (Kuala Lumpur market)	15.23r	
Tin (New York)	281.5c	
Zinc (US Prime Western)	63c	
Cattle (live weight)†	108.38p	+0.63*
Sheep (live weight)†♣	88.88p	-3.67*
Pigs (live weight)†	91.72p	-6.08*
London daily sugar (raw)	$238.0t	-7.1
London daily sugar (white)	$261.0t	-4.5
Tate and Lyle export price	£237.5	-4.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	[illegible]	
Wheat (US Dark Northern)	£120w	
Rubber (Jun)♥	53.50p	
Rubber (Jul)♥	53.50p	
Rubber (KL RSS No 1 Jun)	218.0r	+1.0
Coconut oil (Philippines)§	$640.0t	-2.5
Palm Oil (Malaysian)§	$365.0y	
Copra (Philippines)§	$415.0	
Soyabeans (US)	£150.5q	-3.0
Cotton "A" index	61.10c	
Wooltops (64s Super)	422p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-May/Jun y-July w-Apr z-May q-Jun. †Meat Commission average fatstockprices. * change from a week ago. ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Aug	208.80	207.60	210.20	207.20
Oct	199.40	199.00	200.00	198.60
Dec	191.00	191.00	188.60	188.60
May	192.00		190.00	190.00
White	**Close**	**Previous**	**High/Low**	
Aug	274.90	274.60	277.00	274.20
Oct	265.00	264.50	265.50	264.50

Turnover: Raw 287 (67) lots of 50 tonnes White 756 (1607)
Paris- White (FFr per tonne): Aug 1491.32 Oct 1444.38

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low	
Jul	19.18	19.46	19.46	19.12
Aug	19.15	19.38	19.41	19.10
Sep	19.14	19.36	19.34	19.10
Dec	19.08	19.25	19.23	19.04
IPE Index	19.50	19.54	19.50	

Turnover 18317 (9506)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Jun	173.00	175.50	175.25	172.00
Jul	173.75	176.50	176.25	173.00
Aug	175.75	178.50	178.00	174.75
Sep	177.75	180.50	180.00	177.00
Oct	179.75	182.50	180.75	178.00
Nov	181.50	184.00	183.25	181.00
Dec	182.75	185.25	185.25	182.25
Jan	180.75		180.75	180.75
Feb	178.00	179.25	178.25	178.00

Turnover 17140 (8818) lots of 100 tonnes

COTTON

Liverpool - Spot and shipment sales for the week ended 15 May amounted to 510 tonnes against 146 tonnes in the previous week. Sales were moderate with deals mainly occurring in West African and Australian growths.

JUTE

May/June c and f dundee: BTC $380, BWC n/o, BTD $360, BWD n/a. c and f Antwerp: BTC $370, BWC $370, BTD $350, BWD $350.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
May	558	560	563	547
Jul	571	569	574	563
Sep	593	593	595	580
Dec	627	625	627	621
Mar	657	652	657	650
May	676	672	674	670
Jul	695	691	693	691
Sep	716	709	714	712
Dec	745		740	
Mar	770		765	760

Turnover: 2733 (3168) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 18 724.48 (730.98) 10 day average for May 19 723.86 (726.24)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low	
May	735	713	715	713
Jul	744	735	744	728
Sep	762	765	764	750
Nov	782	774	784	770
Jan	802	794	800	790
Mar	815	810	810	801

Turnover: 8471 (1905) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 15: Comp. daily 50.75 (50.85) 15 day average 48.53 (48.86)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low	
Apr	109.1	110.0	109.5	108.0

Turnover 123 (101) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Aug	124.00	123.00	

Turnover - (30)lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low	
May	1291	1286	1291	1280
Jun	1215	1220	1215	1210
Jul	1127	1120	1127	1110
Oct	1243	1236	1242	1230
BFI	1286	1285	1286	

Turnover 189 (124)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low	
May	125.40	125.40	125.40	125.30
Sep	110.80	111.20	111.00	110.90
Nov	114.25	114.40	114.25	114.10
Jan	117.85	118.10	117.85	117.80
Mar	121.10	121.25	121.30	121.00
Barley	**Close**	**Previous**	**High/Low**	
May	119.25	-	119.25	119.00
Sep	107.95	-	108.00	107.95

Turnover: Wheat 38 (88), Barley 38 (20).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low	
Jun	118.0	120.5	118.5	118.0
Jul	112.2		113.1	
Aug	105.5	107.0	105.5	105.0
Sep	105.2		105.1	
Oct	106.6		107.0	106.7

Turnover 26 (31) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 42,097 lots
Cash	1322.5-3.5	1313-14		1324-25		
3 months	1348-8.5	1338-39	1362/1340	1347.5-48	1348-49	161,739 lots
Copper, Grade A (£ per tonne)						Total daily turnover 32,369 lots
Cash	1209-10	1208.5-9	1210.5/1210	1209.5-10		
3 months	1231-2	1230.5-31	1223/1230.5	1230.5-31	1232.5-33	106,852 lots
Lead (£ per tonne)						Total daily turnover 5,248 lots
Cash	279.5-80.5	279-9.5		281.5-2		
3 months	292-3	291-1.5	294/293	293.5-3.75	294-95	16,742 lots
Nickel ($ per tonne)						Total daily turnover 3,297 lots
Cash	7320-30	7310-20		7310-15		
3 months	7400-405	7385-95	7400/7365	7395-400	7405-10	28,123 lots
Tin ($ per tonne)						Total daily turnover 2,320 lots
Cash	6250-55	6545-55		6245-50		
3 months	6250-60	6250-60	6280/6240	6245-50	6250-60	7,798 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 13,929 lots
Cash	1360-63	1363-65	1362	1362-2.5		
3 months	1269-70	1269-70	1276/1269	1270-1	1272-73	55,031 lots

LME Closing £/$ rate:
SPOT: 1.8387 3 months: 1.8159 6 months: 1.7865 9 months: [illegible]

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	337.40-337.80	
Opening	339.30-339.60	
Morning fix	340.00	184.702
Afternoon fix	339.50	184.441
Day's high	340.70-340.90	
Day's low	337.30-337.70	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.01	6 months	3.08
2 months	3.02	12 months	3.30
3 months	3.03		

Silver fix	p/fine oz	US cts equiv
Spot	223.85	411.50
3 months	229.10	415.20
6 months	234.60	419.35
12 months	245.30	429.00

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	339.50-340.00	184.50-185.00
Maple leaf	350.00-351.00	190.00-190.50
New Sovereign	83.00-84.00	45.00-45.55

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1200				
1300	63	79	13	24
1400	8	30	69	73
Copper (Grade A)	**Calls**		**Puts**	
2100	132	136	3	8
2200	49	69	13	30
2300	6	20	72	85
Coffee	**Jul**	**Sep**	**Jul**	**Sep**
700	47	74	4	12
750	15	42	22	30
800	3	23	60	61
Cocoa	**Jul**	**Sep**	**Jul**	**Sep**
600	6	24	36	31
625	2	16	58	46
650	1	10	80	67
Brent Crude	**Jul**	**Aug**	**Jul**	**Aug**
1950	10	41	51	61
2000	5	21		98
2050	3			

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
May	337.6	[illegible]	0	0
Jun	338.2	339.3	341.7	337.6
Jul	339.0	340.1	0	0
Aug	339.8	340.8	343.5	339.5
Oct	341.5	342.6	344.8	341.7
Dec	343.4	344.5	347.0	343.0
Feb	345.6	346.7	0	0
Apr	347.7	348.8	350.7	350.7
Jun	350.1	351.2	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
May	358.6	359.8	0	0
Jul	361.5	358.6	364.5	361.0
Oct	365.7	362.3	368.5	364.5
Jan	365.7	362.3	367.3	365.5
Apr	366.2	362.8	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
May	407.9	408.7	411.5	411.5
Jun	408.2	409.1	0	0
Jul	409.2	410.2	414.0	408.5
Sep	412.1	413.2	415.5	411.5
Dec	416.6	417.7	421.0	415.5
Jan	418.1	419.3	0	0
Mar	421.6	422.9	0	0
May	425.2	426.5	0	0
Jul	428.8	430.3	0	0
Sep	433.1	434.7	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	100.90	100.40	101.00	100.60
Jun	100.95	100.45	100.95	100.80
Jul	101.15	100.60	101.25	100.75
Aug	101.20	100.70	101.15	100.95
Sep	101.25	100.80	101.30	100.95
Oct	101.25	100.80	0	0
Nov	101.30	100.85	0	0
Dec	101.40	100.95	101.35	101.15
Jan	101.30	100.85	101.20	101.20
Feb	101.20	100.75	101.05	101.05

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	58.85	62.72	60.20	58.65
Oct	60.30	63.93	61.75	60.27
Dec	60.84	64.43	62.00	60.75
Mar	62.30	64.73	63.00	62.30
May	62.87	64.00	63.50	63.40

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	132.85	134.95	134.50	132.50
Sep	123.90	126.00	125.25	123.90
Nov	115.05	117.05	117.00	115.50
Jan	114.80	116.25	116.25	114.50
Mar	114.05	116.00	116.50	114.60
May	115.05	116.00	116.50	115.50
Jul	115.55	116.00	116.00	116.00
Sep	115.55	116.00	116.00	116.00

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Jun	20.12	20.52	20.36	20.05
Jul	20.35	20.71	20.56	20.32
Aug	20.48	20.81	20.66	20.43
Sep	20.49	20.81	20.69	20.45
Oct	20.47	20.77	20.68	20.50
Nov	20.45	20.72	20.65	20.45
Dec	20.43	20.69	20.62	20.43
Jan	20.39	20.63	20.53	20.42
Feb	20.34	20.57	20.51	20.38
Mar	20.30	20.51	20.32	20.32

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jun	5615	5711	5680	5600
Jul	5607	5684	5635	5590
Aug	5670	5757	5700	5660
Sep	5760	5862	5825	5760
Oct	5875	5957	5920	5865
Nov	5970	6052	6015	5965
Dec	6050	6132	6100	6075
Jan	6075	6157	6125	6090
Feb	5970	6052	6045	6025
Mar	5750	5832	5815	5815

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	927	921	929	918
Sep	969	963	971	961
Dec	1020	1014	1022	1015
Mar	1062	1055	1066	1056
May	1092	1084	0	0
Jul	1122	1114	1120	1120
Sep	1149	1141	1150	1150
Dec	1181	1173	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	65.60	64.40	65.70	63.80
Sep	67.60	66.45	67.70	27.05
Dec	70.50	69.20	70.60	68.70
Mar	73.35	72.00	73.35	71.50
May	77.20	76.20	77.20	75.90
Jul	79.75	77.75	0	0
Sep	82.40	80.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	9.39	9.35	9.49	9.32
Oct	8.93	8.91	9.02	8.92
Mar	8.84	8.82	8.92	8.83
May	8.83	8.81	8.86	8.82
Jul	8.80	8.74	8.80	8.79
Oct	8.71	8.71	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

May 19	May 18	mnth ago	yr ago
1592.4	1597.9	1602.7	1726.1

DOW JONES (Base: Dec. 31 1974 = 100)

	May 18	May 15	mnth ago	yr ago
Spot	118.59	118.52	115.98	128.84
Futures	119.47	119.70	119.17	126.82

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
May	601/4	619/4	612/0	596/0
Jul	607/4	623/4	617/0	604/0
Aug	611/2	627/0	620/4	607/0
Sep	616/0	631/6	625/4	612/0
Nov	622/6	638/4	632/0	618/0
Jan	630/0	645/0	639/0	627/0
Mar	639/0	654/4	647/0	635/0
May	640/0	659/0	650/0	640/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
May	20.70	21.09	20.90	20.70
Jul	20.86	21.28	21.11	20.77
Aug	21.04	21.45	21.25	20.91
Sep	21.23	21.60	21.44	21.11
Oct	21.39	21.73	21.56	21.25
Dec	21.67	22.08	21.85	21.52
Jan	21.75	22.17	21.75	21.68
Mar	22.02	22.35	0	0

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
May	182.0	189.5	186.0	181.5
Jul	184.1	188.3	187.0	182.6
Aug	184.9	188.7	187.7	182.9
Sep	185.5	189.5	188.5	184.2
Oct	203.4	207.3	206.0	202.5
Dec	203.4	208.1	206.0	202.5
Jan	204.0	206.2	204.0	203.3
Mar	204.2	207.0	204.0	203.3

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
May	250/4	258/0	256/4	249/6
Jul	254/2	262/2	260/0	253/4
Sep	256/4	264/0	261/6	255/4
Dec	258/2	266/0	262/4	257/0
Mar	265/6	273/0	269/4	264/2
May	270/0	276/6	273/4	269/0
Jul	274/4	280/6	277/0	273/4
Dec	281/0	283/0	282/0	281/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
May	381/2	384/2	384/6	380/0
Jul	345/4	356/2	354/6	344/0
Sep	349/6	358/4	359/6	348/4
Dec	357/4	367/6	366/6	356/0
Mar	359/0	367/4	368/4	358/4
May	349/4	355/4	354/0	348/4
Jul	333/0	340/0	337/6	333/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	72.375	73.225	73.350	72.325
Aug	69.900	70.375	70.600	69.750
Oct	69.325	70.100	70.225	69.300
Dec	68.850	69.675	69.775	68.800
Feb	68.450	69.100	69.150	68.400
Apr	69.750	70.200	70.300	69.750
Jun	67.250	[illegible]	68.000	67.000

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	46.975	47.625	47.900	46.900
Jul	45.060	45.650	45.925	45.000
Aug	43.050	43.625	43.825	43.000
Oct	39.975	40.450	40.550	39.900
Dec	42.750	43.050	43.200	42.675
Feb	43.850	44.100	44.250	43.850
Apr	42.700	42.850	42.700	42.700
Jun	47.280	47.300	47.250	47.250

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
May	38.050	38.400	38.900	37.950
Jul	37.275	37.800	38.250	37.100
Aug	34.800	35.450	35.650	34.700
Feb	46.300	46.375	46.700	46.150
Mar	45.100	45.100	46.000	45.100

LONDON STOCK EXCHANGE

Footsie struggles to hold above 2,700

By Steve Thompson

A LATE burst of activity, prompted by some rather spurious takeover speculation, enabled London's equity market to end a difficult day with only minor damage. More importantly, it finished above the psychologically important 2,700 level on the Footsie index. At the close the index was 3 points lower at 2,700.6.

Equity market specialists were encouraged that the market had managed to hold above 2,700, although there were suspicions that dealers were more than keen to see the index close above that level.

There was turmoil in the market at the outset of trading, when a fault in the Stock Exchange computing system led to incorrect FT-SE 100 share indices being published on the Stock Exchange TOPIC system during the first few minutes of trading. The fault also meant that prices carried on TOPIC's Footsie trigger page were incorrect. There were no problems, however, with the market's Seaq trading system, enabling dealers to trade normally throughout the session.

The problems were quickly corrected, showing that the Footsie opened some 3.6 higher at 2,707.2. The early rise in the Footsie reflected the latest strong showing by Wall Street overnight and a positive performance by Tokyo.

However, a decline in the Footsie future and the emergence of only scattered support for leading shares saw the market begin to drift off and dip below 2,700 to reach the day's low point of 2,693.7, or 9.9 lower.

April's Public Sector Borrowing Requirement of £3.6bn came as no surprise to the City, nor did figures for industrial production and unit wage costs. Thereafter, the market managed to recoup some of the lost ground, with an early modest fall by Wall Street having little effect on London. Dealers were quick to point out that sterling continued to perform well against the D-Mark and the dollar and that there had been few signs of pressure in the gilts market.

News that the Bank of England had waved through the Hongkong & Shanghai Banking bid for Midland Bank caused a flurry in Midland shares amid rather unconvincing stories that Hongkong Bank may well launch a market raid to pick up a further 10 per cent of Midland shares.

Another suggestion was that Lloyds, increasingly viewed as being thwarted in its attempts to acquire Midland, could now turn its attentions towards Royal Bank of Scotland.

Heavy turnover in Asda also revived old bid hints in the supermarket chain.

The best showing in the Footsie came from British Airways, whose shares ran up 5.2 per cent after more than doubled profits.

Lasmo, the oil group, took a hammering after S.G. Warburg Securities downgraded its earnings and dividend projections for the stock.

Turnover in equities accelerated after a slow start, helped by a medium-sized programme trade executed around midday, and reached 565.4m shares. As expected, the value of customer business on Monday dropped below £1bn, only the third time since the general election that turnover has fallen below that level.

Account Dealing Dates		
*First Dealings:		
May 11	Jun 1	Jun 15
Option Declarations:		
May 28	Jun 11	Jun 25
Last Dealings:		
May 29	Jun 12	Jun 26
Account Day:		
Jun 8	Jun 22	Jul 6

*New-time dealings may take place from 8.30 am two business days earlier.

FINANCIAL TIMES STOCK INDICES

	May 19	May 18	May 15	May 14	May 13	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	89.21	89.23	89.04	88.94	88.84	84.37	89.23 (18/5)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	104.74	104.57	104.33	104.13	103.82	83.41	104.74 (19/5)	97.15 (2/1)	105.40 (28/11/47)	50.53 (3/1/75)
Ordinary Share●	2129.5	2129.1	2113.3	2120.2	2136.2	1942.5	2147.1 (11/5)	1851.4 (3/4)	2147.1 (11/5/92)	49.4 (26/6/40)
Gold Mines	112.0	112.4	111.4	110.9	107.7	159.2	160.6 (10/1)	106.8 (29/4)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2700.6	2703.6	2682.6	2694.7	2720.5	2482.7	2737.8 (11/5)	2382.7 (3/4)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1232.78	1236.78	1225.65	1234.32	1243.41	1162.86	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	938.62 (16/1/91)
●Ord. Div. Yield	4.32	4.31	4.34	4.32	4.28	4.86				
●Earning Yld %(full)	6.10	6.10	6.13	6.11	6.07	8.64				
●P/E Ratio(Net)(☆)	20.57	20.59	20.47	20.53	20.68	14.30				
SEAQ Bargns 5.00pm	27,447	27,127	28,573	32,646	29,677	26,178				
Equity Turnover(£m)†	-	945.5	1005.4	1384.8	1164.8	738.79				
Equity Bargains†	-	30,890	31,394	37,805	35,936	25,526				
Shares Traded (ml)†	-	439.0	439.0	582.6	523.2	371.5				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 19.12

Ordinary Share Index, Hourly changes — Day's High 2131.9 — Day's Low 2118.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2131.9	2126.0	2128.2	2121.4	2122.4	2123.6	2125.7	2125.0	2127.0

FT-SE 100, Hourly changes — Day's High 2707.5 — Day's Low 2693.7

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2707.2	2700.5	2701.0	2698.2	2697.0	2699.0	2700.1	2699.6	2699.6

FT-SE Eurotrack 200, Hourly changes — Day's High 1236.88 — Day's Low 1232.35

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1236.54	1235.96	1234.64	1234.60	1234.85	1233.21	1233.00

GILT EDGED ACTIVITY

Indices*	May 18	May 15
Gilt Edged Bargains	137.4	111.0
5 – Day average	117.7	109.3

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share Index Tel 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times

Lasmo hit by broker revision

OIL exploration company Lasmo was the worst performing stock yesterday in the FT-SE 100 Index and one of the weakest in the London market following a sharp profits forecast downgrading by securities house S.G. Warburg.

Warburg argued that unless the company cuts its dividend, halves its exploration budget and takes £5m off its overheads it will lose £30m this year. It said Lasmo needed to reduce its total dividend to a nominal penny from 8.5p. Lasmo fell 18 to 199p with more than 8.8m shares traded.

The revised forecast follows a similar exercise on Enterprise last week, when Warburg lowered its underlying earnings prediction by £16m to £78m, inclusive of £80m profits from asset disposals. County NatWest followed yesterday with a forecast cut from £86m to £72m for Enterprise, and estimated asset disposal profits at only £25m. It also advised clients to reduce holdings. Enterprise slipped 5 to 421p.

Next optimism

A healthy trading statement from Next helped sentiment in a positive retail sector anticipating improved official figures today. Next shares rose 4½ to 88½p in volume of 6.8m.

Chairman Lord Wolfson said at the group's annual meeting that retail sales in the first quarter were ahead by 10 per cent from last year's corresponding period. Although some observers pointed out that Next's sales last year were particularly flat, the rise followed similar noises from Burton last week. The market also expects a moderate increase in retail sales figures due today.

Burton gained 2 to 50p, Boots 3 to 467p and Kingfisher 2 to 563p. Dixons advanced 6 to 271p and Amstrad rose 3½ to 40½p, both partly on the back of the BSkyB football deal.

Bank approves bid

Approval by the Bank of England for Hongkong and Shanghai Banking's bid for Midland prompted renewed support for the UK clearer. The statement triggered talk that Hongkong Bank would launch a dawn raid today for Midland stock in order to take its stake above 15 per cent. However, banking analysts said this was unlikely as Hongkong Bank is not allowed to buy stock in the market at a price lower than the bid price. Midland gained 4 to 397p.

The possibility that rival suitor Lloyds Bank – up 8 at 432p – may not get a toehold caused analysts to cast around and look for another likely target for Lloyds. They alighted on Royal Bank of Scotland, pinpointing the value of its Direct Line Insurance subsidiary. Royal Bank climbed 7 to 205p.

Figures at the bottom end of expectations prompted profit-taking in BOC, which dropped 15 to 703p.

The gases and healthcare company announced half-year profits of £162.7m, up from a previous £144.7m but compared with analysts' forecasts of between £163m and £166m. The company also said signs of an upswing were patchy and limited to only a few segments of its global industrial gases markets.

Smith New Court lowered its full-year profits forecast by £5m to £355m and was advising clients to switch into ICI which, it said, offers good value up to 1400p. ICI eased 5 to 1361p.

Turnover in Hanson was boosted as a number of the conglomerate's directors exercised share options. Lord Hanson reduced his holding to 6m shares after selling 2.5m at 232½p. In the market, the shares eased 2½ to 231½p with 10m traded. There were also 9.1m warrants traded.

Body Shop retreated 12 to 308p as rumours of a critical television programme circulated.

Talk of the sale of Gardner Merchant, Forte's catering subsidiary, refused to die away ahead of today's results from rival caterer and potential purchaser Compass Group.

The latest talk has the £500m subsidiary being broken up, with the UK side going to management and Compass taking the European operations. Both Forte and Compass shares were unchanged yesterday.

Slightly disappointing results from Allied-Lyons saw the shares marked down 8 to 652p. Worries over the Carlsberg deal and the brewery group's cash flow – with City anxiety over the possibility of a rights issue refusing to go away – also persisted.

Mr Graeme Eadie at County NatWest moved to a buy position on Allied, however, citing solid margins and good recovery prospects. "The new management team is on course to deliver superior earnings growth over the next two years," he said.

Nervousness ahead of today's results from Bass left the shares down 12 at 619p.

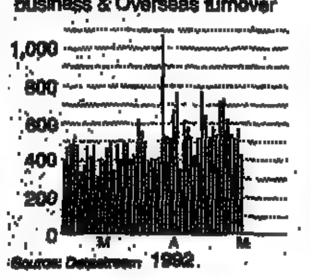
Selling in the US was said to have been behind a fall of 21 to 984p for Wellcome.

Glaxo recovered 13 to 748p.

FT-A All-Share Index

Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business & Overseas turnover



Source: Datastream 1992.

Figures from Swedish competitor Astra, particularly on Losec, the direct competitor to Glaxo's anti-ulcer drug Zantac, were good but in line with forecasts.

British Airways raced up 15 to 302p in brisk trade of 18m shares, making it the best performer in the FT-SE 100 Index. The company reported full-year profits up 119 per cent at £285m, and a 20 per cent rise in the dividend.

Analysts moved quickly to upgrade current year forecasts to around the £409m mark. P & O benefited from the positive mood surrounding BA and gained 11 to 536p.

A gloomy annual meeting at Ocean Group sent the shares tumbling 27 to 311p.

British Steel eased 3 to 81p. There was talk in the market that the recent price increases for steel are not holding and that the company is being forced to sell to European customers at pre-April 1992 prices.

Williams Holdings added 6 at 360p, with suggestions in the market that the share price was being massaged in preparation for a deal or acquisition.

A line of GEC stock that has been overhanging the market was said to have held down the shares, which lost 2¼ to 230¼p. However, 8m shares were traded in big blocks at 230¼p a share, suggesting that the overhang had now been largely cleared.

Board changes at Southern Water were welcomed by the market, the stock adding 12 at 411p in a positive water sector, where Panmure Gordon advised investors to stay "overweight".

Building materials group BPB Industries gained 6 to 187p in heavy turnover of 3.6m as BZW moved to a buy stance.

MARKET REPORTERS:
Christopher Price,
Peter John,
Joel Kibazo.

■ Other market statistics, Page 22.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ADT	2	448	-2	Comm. Union	65	510	+6	Lucas	1,700	138	-4	Shell Transport	1,900	508	[illegible]
ASDA Group	2,000	33¼	+1	Cookson	3,200	155	+6	MB Caradon	333	310	+1	Siebe	[illegible]	[illegible]	
Abbey National	1,100	313	+1	Courtaulds	1,000	582	+1	MEPC	174	337	-1	Slough Ests.	[illegible]	[illegible]	
Albert Fisher	549	80	+1	Dalgety	325	434	+1	Manweb	476	367	+1	Smith (W H) A	[illegible]	[illegible]	[illegible]
Allied-Lyons	2,000	652	-8	De La Rue	136	815	-1	Marks & Spencer	5,000	336	+2	Smith & Nephew	[illegible]	[illegible]	[illegible]
Amstrad	3,400	40½	+3½	Dixons	1,100	271	+6	Midland Bank	6,300	397	+4	SmKl Beecham	[illegible]	[illegible]	[illegible]
Anglian Water	970	426	-1	ECC Group	635	591	+3	Midlands Elect.	1,000	310	+8	SmKl Beecham Uts	[illegible]	[illegible]	[illegible]
Argos	136	272		Eastern Elect.	776	375	+6	NFC	442	275	+5	Smiths Inds.	[illegible]	[illegible]	
Argyll Group	3,900	367	-4	East Midland Elect.	1,400	289		NatWest Bank	2,800	361	+9	Southern Elect.	[illegible]	313	+9
Arjo Wiggins	2,200	259	+3	Enterprise Oil	473	421	-5	National Power	3,600	277	+3	South Wales Elect.	[illegible]	[illegible]	[illegible]
Ass. Brit. Foods	179	444	-1	Eurotunnel Units	976	388	+3	Next	6,800	88½	+4½	South West Water	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

BID talk in Asda, in the traded options market, created substantial interest in an otherwise dull day in the derivative markets, writes Joel Kibazo.

Turnover in the London Traded Options market reached 29,821 a big improvement on Monday's 19,926 contracts with the bulk of the day's business carried out in stock options. Turnover in the FT-SE 100 option was negligible at 4,922 lots.

Asda was the top traded stock option as bid talk returned. It traded a total of 7,051 contracts with the July 35 calls in which 3,670 lots were dealt the busiest series. This was followed by British Airways, which reported good profits, and led to a clutch of profit upgrades.

It traded 2,961 lots. Hanson, BT and Lasmo, in which dividend cuts are forecast, were also busy.

In stock index futures, dealers talked of a dull session with June trading in a narrow range for a large part of the day. June opened at 2,727, which proved to be the high point of the day. Buying interest at the lower levels was modest, with economic statistics and Wall street having no impact on the day's trading. June eventually closed at 2,717 down 12 on the previous session and around 9 points above its estimated fair value premium to cash of about 8. Turnover was a poor 4,649.

FT-ACTUARIES SHARE INDICES

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue May 19 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1992 to date	Mon May 18 Index No.	Fri May 15 Index No.	Thu May 14 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (179)	922.91	....	6.42	5.04	20.27	14.90	923.42	917.45	920.00	820.40
2 Building Materials (22)	1104.45	+0.1	5.01	5.36	27.72	19.03	1103.46	1097.86	1103.20	1081.37
3 Contracting, Construction (28)	1052.01	+0.5	3.49	5.74	60.00	23.82	1046.47	1039.85	1048.61	1319.30
4 Electricals (8)	2744.49	....	6.74	5.37	19.28	68.82	2744.39	2732.05	2692.47	2356.25
5 Electronics (29)	2037.99	-0.3	8.80	4.17	14.40	5.05	2044.59	2035.53	2033.51	1768.13
6 Engineering-Aerospace (7)	402.23	-0.3	8.72	6.46	14.55	11.16	403.28	400.91	400.38	427.825
7 Engineering-General (44)	566.03	....	7.37	4.16	16.84	7.82	566.05	566.21	565.00	437.07
8 Metals and Metal Forming (8)	374.19	-1.3	0.88	9.26	–	2.03	379.31	372.48	372.76	446.34
9 Motors (14)	387.24	-0.2	6.99	6.07	19.06	9.96	387.99	386.24	391.72	325.42
10 Other Industrial Materials (19)	1892.73	+0.1	6.56	4.38	18.35	33.79	1891.17	1871.93	1880.36	1482.95
21 CONSUMER GROUP (188)	1731.17	-0.2	7.03	3.31	17.45	16.67	1734.72	1725.47	1732.81	1449.34
22 Brewers and Distillers (24)	2215.44	-1.0	7.50	3.34	16.00	16.94	2237.99	2218.24	2224.32	1906.31
25 Food Manufacturing (17)	1308.98	-0.2	8.23	4.01	15.05	20.33	1311.17	1307.76	1314.68	1162.27
26 Food Retailing (18)	2978.03	-0.7	8.03	3.02	16.18	20.23	2998.16	2971.14	2964.89	2763.53
27 Health and Household (24)	4118.87	+0.3	6.70	2.58	17.02	35.84	4108.57	4104.63	4125.43	3259.81
29 Hotels and Leisure (20)	1430.03	-0.3	5.88	4.78	22.04	23.90	1433.68	1432.84	1445.03	1311.27
30 Media (25)	1668.90	-0.3	5.67	3.29	22.06	18.07	1673.19	1666.62	1685.47	1443.33
31 Packaging, Paper & Printing (17)	853.31	+0.2	6.11	3.87	19.75	11.55	851.34	854.94	854.97	668.26
34 Stores (33)	1105.66	+0.3	6.87	3.32	19.29	6.71	1102.33	1087.37	1091.37	902.90
35 Textiles (10)	744.94	+0.5	6.17	4.17	20.44	10.52	741.40	741.70	747.16	534.96
40 OTHER GROUPS (116)	1335.46	....	9.19	4.82	13.67	14.24	1335.09	1324.43	1331.81	1228.91
41 Business Services (17)	1489.19	....	6.55	4.25	19.24	14.66	1489.65	1489.93	1493.45	1231.97
42 Chemicals (22)	1598.04	-0.5	6.65	4.54	18.41	24.37	1606.79	1594.98	1605.70	1340.73
43 Conglomerates (11)	1440.97	-0.8	8.97	6.59	13.93	11.37	1452.88	1432.71	1442.85	1486.39
44 Transport (14)	2745.62	+1.0	6.77	4.22	18.07	30.47	2718.45	2700.39	2719.16	2210.56
45 Electricity (16)	1302.23	+0.6	13.49	5.00	9.67	17.21	1293.82	1268.16	1274.32	1248.74
46 Telephone Networks(4)	1449.88	-0.1	10.81	4.32	12.08	16.02	1451.32	1451.40	1453.57	1459.90
47 Water(10)	2887.63	+0.8	14.77	5.51	7.46	0.00	2864.89	2830.90	2851.29	2464.13
48 Miscellaneous (22)	2122.48	....	5.56	4.65	23.75	21.83	2123.44	2102.59	2124.50	1884.75
49 INDUSTRIAL GROUP (483)	1406.26	-0.1	7.59	4.11	16.46	15.74	1407.72	1398.74	1404.87	1229.53
51 Oil & Gas (17)	2104.37	-1.1	7.21	6.76	[illegible]	63.63	2127.50	2101.56	2099.48	2368.22
59 500 SHARE INDEX (500)	1474.39	-0.2	7.55	4.38	16.62	19.30	1477.38	1467.09	1472.74	1326.46
61 FINANCIAL GROUP (87)	796.81	+1.0	–	5.69	–	17.10	789.11	783.76	789.59	799.97
62 Banks (9)	1016.89	+1.8	4.75	5.37	33.33	24.58	998.67	994.93	997.68	887.57
65 Insurance (Life) (6)	1571.72	+0.1	–	5.57	–	44.26	1569.48	1551.55	1569.60	1464.20
66 Insurance (Composite) (7)	561.59	+0.4	–	6.20	–	13.46	559.55	555.92	559.31	675.53
67 Insurance (Brokers) (10)	1001.45	+1.0	7.79	6.69	16.88	21.48	991.29	984.87	1001.62	1091.44
68 Merchant Banks (7)	518.07	+0.1	–	4.00	–	4.25	517.43	509.53	509.53	423.91
69 Property (33)	714.41	-0.2	7.64	6.40	18.09	6.75	715.66	708.59	725.43	983.47
70 Other Financial (15)	268.25	+0.4	6.73	6.44	20.14	3.12	267.14	264.63	265.41	284.52
71 Investment Trusts (70)	1267.91	+0.4	–	3.51	–	15.07	1262.61	1259.49	1264.83	1211.29
99 ALL-SHARE INDEX (657)	1312.07	....	–	4.51	–	18.45	1312.69	1303.73	1309.31	1199.03

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	May 18	May 15	May 14	May 13	May 12	Year ago
FT-SE 100 SHARE INDEX♦	2700.6	-3.0	2707.5	2693.7	2703.6	2682.6	2694.7	2720.5	2722.4	2482.7

FIXED INTEREST

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (224).
BRITISH FUNDS (18) BANKS (4) Bk Scot 9¼pc Pf, Do 9¾pc Pf, Royal Bk Scot, TSB. BREWERS (1) Mansfield, BLDG MATLS (5) Chieftain, Grafton, Manders, Needler, ...

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

IPNA 3 N.V.

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or -	1992 high	1992 low	Mkt Cap £m	Yld Gr's
Abbott Labs	35⅜xd	-⅛	38⅞	34	16,123	1.9
♥Allegheny & W	272p	+18	335p	228p	141.3	8.2
Amdahl	931p	+42	1169p	815p	1,039	0.6
Amer Cyanamid	32	+⅛	37	31⅞	2,931	2.9
Amer Express	12⅛xd	—	13⅞	10⅞	5,725	4.7
Amer T & T	23⅛xd	+⅛	24⅞	20⅛	31,060	3.2
Ameritech	34⅜	+⅛	38⅞	32½	15,160	5.7
BankAmerica	26⅛xd	-⅛	27⅛	19⅞	6,988	2.8
Bankers NY	32xd	+⅛	37⅛	28⅞	2,037	8.6
Bell Atlantic	23⅛	-⅛	26⅛	23⅛	10,188	6.2
BellSouth	26½	+⅛	29⅛	25	12,897	5.9
♥Bethlehem Steel	7⅞xd	-⅛	9⅝	7	601.5	—
Bowater	1160pxd	-21	1578p	1078p	421.2	5.8
CPC	22⅛	-⅛	25⅛	22⅛	3,387	3.0
California Engy	897p	—	832p	646p	128.9	—
Campbell Soup	18⅞	+⅛	23⅞	17⅞	4,545	2.4
Chase Manhattan	15⅞xd	-⅛	16½	9⅛	2,198	4.3
Chrysler	9⅞xd	—	11⅛	6⅛	2,904	3.4
Citicorp	10½xd	-⅛	11	5⅞	3,635	—
Colgate-Palm	29⅛xd	+⅛	29⅞	25⅛	4,418	2.1
Cont'l Bank	978p	+6	1036p	499p	989.3	3.5
Dana	22⅞xd	-⅛	24½	14⅞	922.4	4.0
Data General	462p	-13	1084p	462p	127.5	—
Dial	19⅛xd	+⅛	26⅛	18⅞	767.8	3.3
Dun & Brad	28⅛	+½	33½	27⅞	4,018	4.6
Eaton	42½	-⅛	48½	32½	1,447	2.9
Echlin	8⅞xd	-⅛	11	7⅞	634.8	4.1
FPL	19⅛xd	-⅛	20	18⅛	3,284	7.1
Fluor	23⅞xd	+⅛	27	21	1,940	0.9
Ford Motor	23⅞	+⅛	25⅞	16	11,815	2.4
Gen Elect	41⅞xd	-½	46⅛	40⅞	36,077	2.8
♥General Host	448p	-12	558p	360p	—	4.5
Gillette	28⅞xd	+½	29⅞	26⅛	5,821	1.5
Hasbro	15⅛	+½	16	12⅞	1,326	0.7
Honeywell	38⅛xd	-⅛	43	34⅛	2,732	2.4
Houston Inds	23⅛	+⅛	26	23	3,027	7.1
IBM	48⅛xd	-⅞	54½	46⅞	28,122	5.5
Ingersoll-Rand	33½xd	-⅛	38⅞	28⅞	1,737	2.2
Lockheed	24⅛	+⅛	28⅞	22⅞	1,614	4.9
Lowe's	2385p	+78	2478p	1631p	888.4	1.3
Merrill Lynch	25⅛xd	-⅛	30⅞	25⅛	2,593	2.2
Morgan (JP)	30⅛xd	+⅛	37½	29⅞	5,734	4.7
Morris (Philip)	42⅞xd	-⅛	46⅞	41⅛	38,088	2.8
NYNEX	42⅞	—	44⅞	39⅞	8,505	6.2
♥Pac Agric	42p	—	57p	28p	—	—
Pall	13⅞	+⅛	17⅞	10⅞	1,173	1.5
Pennzoil	25⅞xd	+⅛	30⅞	25⅛	1,049	6.5
Quaker Oats	29⅛xd	+⅛	40⅞	28⅞	2,185	3.3
Rockwell	12⅞xd	-⅛	15⅞	12⅞	2,881	4.1
Rep NY	23⅞	-⅛	28⅞	22⅞	1,219	2.4
Sears, Roebuck	24⅞xd	+⅛	28	19⅞	4,422	4.7
Sthwestern Bell	34⅞	+⅛	38⅞	32⅛	10,280	4.7
Sun Co.	15⅞xd	+⅛	18⅞	14⅞	1,630	6.7
Tenneco	22⅞xd	—	25⅞	16½	2,842	4.0
Texaco	34⅛xd	+⅛	38⅛	30⅞	8,822	5.3
Time Warner	59⅞xd	-⅛	62⅛	46½	5,562	0.9
♥Unilab	482p	—	587p	440p	448.7	—
Utd Tech	28⅛xd	-⅛	31⅛	27	3,481	3.5
♥Unitech	84p	—	122p	68p	—	—
♦ORS Intl. 1c	0⅞p	—	1⅛p	0⅛p	2.38	—
US West	19⅛	+⅛	21⅞	18⅞	7,993	6.1
Varity	780p	—	885p	632p	198.9	—
Waste Manage	20⅛xd	—	26	20⅛	9,984	1.2
Whirlpool	2174pxd	-38	2798p	2021p	1,522	2.8
♥Woolworth	15⅞	+⅛	18⅛	14⅛	2,028	3.9

CANADIANS

Notes	Price £	+ or -	1992 high	1992 low	Mkt Cap £m	Yld Gr's
♥Abbot Energy	2p	—	3p	1⅛p	—	—
Amer Barrick	1377p	—	1643p	1268p	1,600	0.3
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

Authorised by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

OIL & GAS - Cont.

PACKAGING, PAPER & PRINTING - Cont.

STORES - Cont.

MINES - Cont.

METALS & METAL FORMING

TELEPHONE NETWORKS

PROPERTY

TEXTILES

MISCELLANEOUS

INVESTMENT COMPANIES

OTHER FINANCIAL

TRANSPORT

MEDIA

WATER

OTHER INDUSTRIAL MATERIALS

SOUTH AFRICANS

MOTORS

PLANTATIONS

STORES

MINES

PACKAGING, PAPER & PRINTING

OIL & GAS

GUIDE TO LONDON SHARE SERVICE

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1250 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible]

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

Stewart Ivory Unit Tst Mgrs Ltd (1200)H
45 Charlotte Sq, Edinburgh 031-226 3271

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American ♥	5	258.9	268.9	285.9	-2.4	0.79
(Accum Units) ♥	5	316.5	316.5	336.5	-2.8	0.79
British	5	881.9	897.4	949.5	+0.9	5.26
(Accum Units)	5	1478.9	1504.9	1592.3	+1.5	5.26
European	5	340.6	340.6	362.2	+0.5	1.43
(Accum Units)	5	369.2	369.2	392.5	+0.5	1.43
Japan	5	97.18	97.18	103.4	+1.2	-
(Accum Units)	5	97.96	97.96	104.2	+1.2	-
New Pacific	5	201.8	201.8	215.6	-0.2	1.62
(Accum Units)	5	207.2	207.2	221.4	-0.2	1.62
PEP May 13	5	163.9	165.6	175.2	-0.3	3.50
Mngd Equity	5	132.6	134.1	141.9	+0.5	2.71
Mngd Equity Acc	5	140.7	142.3	150.6	+0.6	2.71
Mngd Cash	0	96.27	96.27	96.27	+0.02	9.44
(Accum Units)	0	120.9	120.9	120.9	...	9.44
Majority Stlg	1	100.31	100.31	101.31	-0.05	9.27
Majority Stlg Acc	1	111.24	111.24	112.36	-0.01	9.37

Storehouse Intl Inv Mngrs Ltd (1200)F

Sun Alliance Unit Tst Mngmt Ltd (1200)F
St Mark's Court, Horsham 0403 232323

Sun Life of Canada Unit Mgrs Ltd (1000)H
Basingview, Basingstoke, Hants 0800 525725

Sun Life Trust Mngmt Ltd (1200)H
101, Cannon St, London EC4N 5AD

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ

	Bid Price	Offer Price	+ or -	Yield Gross
Property Apr 30	189.10	192.95	----	8.21
Equity Apr 30	905.90	918.60	----	3.83

* Available only to Local Authorities

M & G Securities Ltd

Morgan Grenfell Investment Funds Ltd

Murray Johnstone UT Mngmt

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT MANAGED FUNDS SERVICE

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OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

		Bid Price	Offer Price	+ or −	Yield Gross
Asset Global Funds Ltd (1200)					
Victory Hse, Prospect Hill, Douglas, IoM 0624 620097					
European Equity	5	£14.37	14.37	15.41	—
UK Gilt	5	£10.486	10.486	11.04	—
IoM Equity	5	£14.64	14.64	15.63	—
CMI Fund Managers (IoM)					
Clerical Medical Hse, Douglas, IoM 0624 625599					
Equity & Law Intl Fund Mngrs Ltd					
Victory Hse, Prospect Hill, Douglas IoM 0624 677877					
Total Income Fd	5½	96.81	97.04	102.13	+0.29
Gartmore Fund Managers (IoM)					
PO Box 32, Douglas, IoM 0624 627610					
Intl Grth	5¼	493.4	493.4	529.3	+1.3
Leopold Joseph Fund Mngrs (IoM) Ltd					
PO Box 52 Athol St Douglas IoM 0624 661020					
Mercury Fund Managers IoM Ltd					
11 Hill Street, Douglas IoM 0624 662255					
Merc IoM Fund	5	107.0	107.0	114.2	+0.5
Merc Intl Bond	5	50.12	50.12	52.70	—
Sun Life Management (IoM) Ltd					
PO Box 178, Douglas, IoM 0624 672444					
Unibank Scandinavian Fund Ltd					

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar drops on housing starts

THE DOLLAR sank to a new three-month low against the D-Mark on the foreign exchanges yesterday on news of a bigger than expected monthly drop of 17 per cent in US housing starts for April, *writes James Blitz.*

The US unit was trading at a low of DM1.5865 shortly after lunchtime in European markets, as dealers feared that the sharpest monthly fall in housing starts for eight years would force the Federal Reserve to ease interest rates again.

When the rate cut failed to materialise at yesterday's Federal Open Market Committee (FOMC) meeting, the dollar regained some ground and closed in London ½ pfennig down at DM1.5905. Dealers said the dollar had been propped up by heavy bidding just below DM1.59 by two large German institutions and life insurance companies in Tokyo. In New York it ended at DM1.5903/10.

However, analysts believe the case for a cut is much stronger following the housing figures, and could come today, when the FOMC meets again. Mr Neil MacKinnon, chief economist of Yamaichi International in London, said: "The balance of probabilities is for the Fed easing." He does not believe that the dollar weakness will last but thinks the currency could yet bottom out at DM1.56.

The dollar also lost ground yesterday morning to the yen on news that Japanese machine orders for March were up 14.6 per cent from the previous month. The figure brought a strong reaction from the markets, coming one day after news that the Japanese trade surplus in April was 13.4 per cent higher than for the previous month. However, the Fed's decision not to cut rates gave the US currency a temporary respite and it ended a little firmer at Y129.10, and later closed in New York at Y129.12.

The D-Mark continued to perform strongly in the wake of Monday's news that a large industrial strike had been avoided. Its best gain was against the French franc as traders took profits following last week's bullish performance by the French currency. The D-Mark finished at FFr3.3634, up about ½ franc.

Sterling's recent rise against the D-Mark also seems to have petered out as traders give up hope that the pound might cross its central rate against the German currency. The pound closed ¼ pfennig down at DM2.9250. One London dealer suggested that the pound's decline against the D-Mark may have been due to profit-taking in sterling/dollar trading, after the UK currency reached a high point of $1.8425 in London yesterday.

The Swiss franc made new gains following Switzerland's decision to formally apply for EC membership. The Swiss currency ended about ½ centime stronger against the dollar at SFr1.4600.

£ IN NEW YORK

May 19	Close	Previous Close
£ Spot	1.8380-1.8390	1.8355-1.8365
1 month	0.99-0.98pm	1.00-0.98pm
3 months	2.79-2.76pm	2.76-2.73pm
12 months	9.25-9.15pm	9.10-9.00pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May 19	Previous
8.30 am	93.1	93.0
9.00 am	93.0	93.0
10.00 am	93.0	93.0
11.00 am	93.0	93.1
Noon	93.0	93.0
1.00 pm	93.0	93.1
2.00 pm	93.0	93.0
3.00 pm	93.0	93.0
4.00 pm	93.0	93.0

CURRENCY MOVEMENTS

May 19	Bank of England Index	Morgan** Guaranty Changes %
Sterling	93.0	-18.9
U.S Dollar	63.0	-15.5
Canadian Dollar	99.5	-2.5
Austrian Schilling	110.2	+12.3
Belgian Franc	111.6	-1.9
Danish Krone	109.3	+8.3
D-Mark	118.9	+25.0
Swiss Franc	105.0	+12.9
Dutch Guilder	114.6	+16.5
French Franc	104.8	-11.4
Lira	98.8	-19.9
Yen	140.1	+75.5
Peseta	108.3	-17.5

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for May 18

CURRENCY RATES

May 19	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.762715	0.701866
U.S Dollar	3.50	1.40065	1.29017
Canadian $	6.62	N/A	1.53930
[illegible]			

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for May 18

OTHER CURRENCIES

May 19	£	$
[illegible]		
Iran	2625.00*	1440.00*
Korea(Sth)	1428.80 - 1451.85	780.00 - 789.40
Kuwait	0.53475 - 0.53525	0.29150 - 0.29170
Luxembourg	60.25 - 60.35	32.75 - 32.85
Malaysia	4.6310 - 4.6430	2.5210 - 2.5220
Mexico	5553.80 - 5566.00	3101.00 - 3102.00
N.Zealand	3.4465 - 3.4520	1.8735 - 1.8765
Saudi Ar.	6.8430 - 6.9200	3.7495 - 3.7505
Singapore	2.9950 - 3.0020	1.6310 - 1.6320
S Af (Cm)	5.1845 - 5.1965	2.8210 - 2.8230
S Af (Fn)	6.2360 - 6.3435	3.3900 - 3.4485
Taiwan	45.90 - 46.10	24.95 - 25.05
U.A.E.	6.7005 - 6.7775	3.6715 - 3.6735

*Floating rate. Iran official rate £118.50 $66.30

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 19	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	170.690	-4.58	5.94	74
Spanish Peseta	133.631	128.496	-3.84	5.22	66
Belgian Franc	42.4032	42.2756	-0.30	1.48	18
Dutch Guilder	2.31643	2.31315	-0.14	1.32	11
D-Mark	2.05586	2.05395	-0.09	1.27	11
French Franc	6.89509	6.90486	0.14	1.03	-3
Irish Punt	0.767417	0.769378	0.26	0.91	-8
Italian Lira	1538.24	1545.89	0.50	0.67	-21
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 3.55-3.50pm. 12 Month 9.20-9.10pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

[illegible]

Long term Eurodollars: two years 5½-5½ per cent; three years 6½-6½ per cent; four years 6¾-6¾ per cent; five years 6¾-6¾ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

May 19	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.	Pta.	Ecu
£	1	1.839	2.925	237.5	9.837	2.687	3.295	[illegible]	[illegible]	[illegible]	[illegible]	1.424
$	0.544	1	1.591	129.1	5.349	1.461	1.792	[illegible]	[illegible]	[illegible]	[illegible]	0.774
DM	0.342	0.629	1	81.20	3.363	0.919	1.126	[illegible]	[illegible]	[illegible]	[illegible]	0.487
YEN	4.211	7.743	12.32	1000	41.42	11.31	13.87	[illegible]	[illegible]	[illegible]	[illegible]	5.996
F Fr.	1.017	1.869	2.973	241.4	10.	2.732	3.350	[illegible]	[illegible]	[illegible]	[illegible]	1.449
S Fr.	0.372	0.684	1.089	88.39	3.661	1	1.226	[illegible]	[illegible]	[illegible]	[illegible]	0.530
H Fl.	0.303	0.558	0.888	72.08	2.985	0.815	1	[illegible]	[illegible]	[illegible]	[illegible]	0.432
Lira	0.454	0.836	1.329	107.9	4.469	1.221	1.497	[illegible]	[illegible]	[illegible]	[illegible]	0.647
C $	0.455	0.837	1.331	108.1	4.477	1.223	1.500	[illegible]	[illegible]	[illegible]	[illegible]	0.648
B Fr.	1.658	3.050	4.851	393.9	16.31	4.456	5.464	[illegible]	[illegible]	[illegible]	[illegible]	2.362
Pta.	0.546	1.004	1.597	129.7	5.372	1.468	1.800	[illegible]	[illegible]	[illegible]	[illegible]	0.778
Ecu	0.702	1.291	2.054	166.8	6.908	1.887	2.314	[illegible]	[illegible]	[illegible]	[illegible]	1

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100: Pesetas per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE US TREASURY BOND FUTURES OPTIONS; LIFFE BUND FUTURES OPTIONS; LIFFE EUROMARK OPTIONS; LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS; LIFFE SHORT STERLING OPTIONS

[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Jun	99-06	99-11	99-04	99-11
Sep	99-14	99-19	99-14	99-19

Estimated volume 22,322 (29248)
Previous day's open int. 68815 (67994)

US TREASURY BONDS 8% *
$100,000 32nds of 100%

	Close	High	Low	Prev.
Jun	101-11	101-15	100-29	100-01
Sep	100-07			99-29

Estimated volume 1062 (611)
Previous day's open int. 3414 (3625)

6% NOTIONAL GERMAN GOVT. BOND *
DM250,000 100ths of 100%

	Close	High	Low	Prev.
Jun	87.48	87.63	87.45	87.61
Sep	87.76	87.91	87.76	87.89

Estimated volume 42630 (83926)
Previous day's open int. 123672 (127365)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Jun	102.31	102.31	102.23	
Sep	101.94	101.94	101.81	

Estimated volume 1602 (4610)
Traded exclusively on APT

9% NOTIONAL ECU BOND
ECU 200,000 100ths of 100%

	Close	High	Low	Prev.
Jun	101.96			101.89
Sep				

Estimated volume 0 (0)
Previous day's open int. 89 (89)

12% NOTIONAL ITALIAN GOVT. BOND (BTP) *
LIRA 200m 100ths of 100%

	Close	High	Low	Prev.
Jun	99.09	99.13	98.95	99.04
Sep	99.23	99.26	99.13	99.19

Estimated volume 10797 (11226)
Previous day's open int. 43903 (42539)

THREE MONTH STERLING *
£500,000 points of 100%

[illegible]

THREE MONTH EURODOLLAR; THREE MONTH EUROMARK; THREE MONTH EURO SWISS FRANC

[illegible]

THREE MONTH EUROLIRA INT. RATE

	Close	High	Low	Prev.
Jun	87.87	87.89	87.87	87.90
Sep	88.06	88.09	88.06	88.09
Dec	88.27	88.30	88.28	88.30
Mar	88.49	88.52	88.48	88.53

Estimated volume 509 (1463)
Previous day's open int. 6103 (6091)

FT-SE 100 INDEX *
£25 per full index point

	Close	High	Low	Prev.
Jun	2717.0	2727.0	2710.0	2729.0
Sep	2759.0	2765.0	2754.0	2771.0
Dec	2804.0			2813.0

Estimated volume 6284 (8842)
Previous day's open int. 44866 (44634)

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8390	1.8295	1.8114	1.7858	1.7475

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%; JAPANESE YEN (IMM) Y12.5m $ per Y100; U.S. TREASURY BILLS (IMM) $1m points of 100%; DEUTSCHE MARK (IMM) DM125,000 $ per DM; BRITISH POUND (IMM) $ per £; THREE-MONTH EURODOLLAR (IMM) $1m points of 100%; SWISS FRANC (IMM) SFr 125,000 $ per SFr; STANDARD & POORS 500 INDEX $500 times index; PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

[illegible]

PARIS

7 to 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES; THREE-MONTH PIBOR FUTURES (MATIF) (Paris interbank offered rate); CAC-40 FUTURES (MATIF) Stock Index; ECU BOND (MATIF)

[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls June	Calls September	Calls December	Puts June	Puts September	Puts December
106	-	-	-	-	0.10	-
107	1.68	-	-	-	0.21	-
108	0.71	1.36	-	0.02	0.44	-
109	0.06	0.79	1.25	0.36	0.85	1.14
110	-	0.40	0.80	-	-	-
111	-	-	0.50	-	-	-
Open int.	120,486	53,028	11,770	89,748	36,441	16,048

Estimated volume 14,079 Total Open interest 327,723

BASE LENDING RATES

	%		%		%
Adam & Company	10	Credit Lyonnais	10	McDonnell Douglas Bnk.	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Duncan Lawrie	10	Mount Banking	10
● Henry Ansbacher	10	Equatorial Bank plc	10	NatWestminster	10
B & C Merchant Bank	10.5	Exeter Bank Limited	11	Northern Bank Ltd	10
Bank of Baroda	10	Financial & Gen. Bank	10	Nykredit Mortgage Bank	11
Banco Bilbao Vizcaya	10	First National Bank Plc.	14	Provincial Bank PLC	14
Bank of Cyprus	10	● Robert Fleming & Co.	10	Roxburghe Bank Ltd.	11.5
Bank of Ireland	10	Robert Fraser & Ptnrs.	10.5	Royal Bk of Scotland	10
Bank of India	10	Girobank	10	● Smith & Williamson Secs.	10
Bank of Scotland	10	● Guinness Mahon	10	Standard Chartered	10
Banque Belge Ltd	10	● Hambros Bank	10	TSB	10
Barclays Bank	10	Hampshire Trust Plc	13.5	Dalbank plc	10
Benchmark Bank	11	Heritable & Gen Inv Bnk.	10	● United Bk of Kuwait	10
Brit Bk of Mid East	10	● Hill Samuel	10	Unity Trust Bank Plc	10
● Brown Shipley	10	C. Hoare & Co.	10	Western Trust	10
CL Bank Nederland	10	Hongkong & Shanghai	10	Westpac Bank Corp.	10
Citibank NA	10	Julian Hodge Bank	10	Whiteaway Laidlaw	10
City Merchants Bank	10	● Leopold Joseph & Sons	10	Yorkshire Bank	10
Clydesdale Bank	10	Lloyds Bank	10		
Co-operative Bank	10	Meghraj Bank Ltd	10		
Coutts & Co	10				

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Rates end firmer

RATES IN the sterling cash markets ended the day slightly firmer after the Bank of England forecast a large shortage, which was not fully taken up during the day.

In the morning, the Bank of England forecast a shortage of around £1.15bn, much of which was caused by outstanding payments on the recent £800m gilts issue. However, dealers were reluctant to sell paper to meet the shortage, and a £200m shortfall remained at the end of trading.

With a bank holiday due this weekend, market players will probably wait until Friday to sell paper to the Bank, in the hope of pushing the overnight rate as low as possible over the three-day weekend.

As a result, period rates finished slightly firmer. Three-month money, an important indicator of where the market thinks rates are moving, ended the day at 10 1/16 per cent, after closing at 10 per cent the previous night. One-month money also closed a shade higher, at 9 15/16 per cent after a previous 9 13/16 per cent.

Trading on the futures markets also reflected firmer rates. The June short sterling contract ended at 89.97, three ticks off from a previous close of 90.00. The September contract ended down two ticks at 90.30. However, volumes in both contracts were extremely low and amounted to little over 10,000 lots for the two contracts combined.

In its early operations in the cash markets, the Bank of England purchased £21m of Band-1 bills at 9⅞ per cent, and £225m of bills for resale to the market on June 8 at an interest rate of 9 15/16 per cent.

The forecast was later revised to a shortage of £1.2bn before taking account of the early operations.

The Bank later purchased £199m of Band-1 bank bills at 9⅞ per cent, £40m of Band-2 bank bills at 9⅞ per cent and £39m of bills for resale to the market on June 8 at 9 15/16 per cent.

In the afternoon, the Bank bought £346m of Band-1 bank bills at 9⅞ per cent. The Bank provided late assistance of around £80m.

In the German money markets, call money was steady but with an easier bias, as relatively high liquidity levels at the banks took pressure off the market.

Dealers quoted overnight money at 9.55-60 per cent, compared to Monday's level of 9.55-65 per cent.

UK clearing bank base lending rate
10 per cent
from May 5, 1992

FT LONDON INTERBANK FIXING

(11.00 a.m. May 19) 3 months US dollars: bid [illegible] offer [illegible]; 6 months US Dollars: bid [illegible] offer [illegible]

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — 4pm: Prime rate; Broker loan rate; Fed funds; Fed. funds at intervention. Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

May 19 — Overnight; 7 days notice; One Month; Three Months; Six Months; One Year. Interbank Offer; Interbank Bid; Sterling CDs; Local Authority Deps.; Local Authority Bonds; Discount Mkt Deps; Company Deposits; Finance House Deposits; Treasury Bills (Buy); Bank Bills (Buy); Fine Trade Bills (Buy); Dollar CDs; SDR Linked Dep. Offer; SDR Linked Dep. Bid; ECU Linked Dep. Offer; ECU Linked Dep. Bid

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

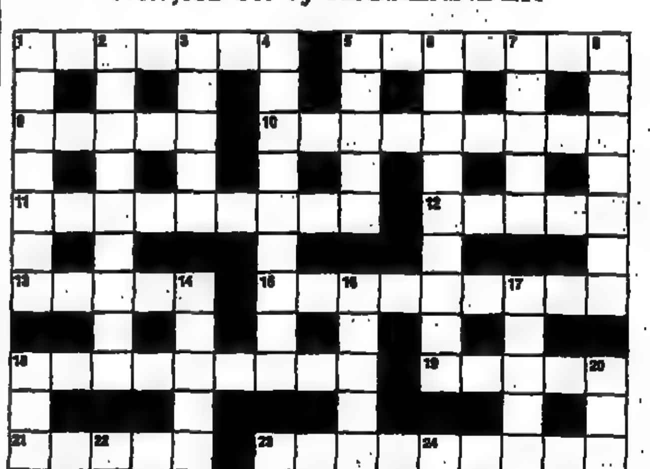
Money Market Bank Accounts

[illegible]

JOTTER PAD

CROSSWORD

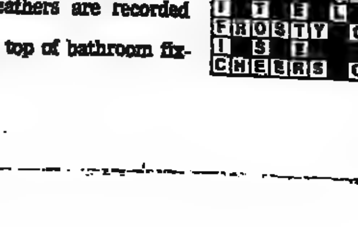
No.7,852 Set by HIGHLANDER



ACROSS
1 Place in the warehouse is turned over (7)
5 Support put at top of bed (7)
9 Bamboo stem embodies end of bamboo craft (5)
10 Carried away by creator of Dr Jekyll (9)
11 French bar meat I sent for distribution (9)
12 North American lake sounds like place for birds of prey (5)
13 Flat broke – family in the street (5)
15 Friendly Society's expenses (9)
18 Increasing volume of sound from unending street party (9)
19 Classic debut of yearling – reared back at the start (5)
21 Saturday and Sunday on the beach (5)
23 Tropic cereal crop found on European island (9)
25 He treats bones including old broken toes, by the way (9)
26 With similar characteristics to Jolson and Eisenhower (5)
27 Measures available are relative (7)
28 Lets first page reveal contents (7)

DOWN
1 Devil take the author! (7)
2 Ornamental brooches rot suit fabric (9)
3 On Saturday the players run out of it when tired (5)
4 Stolen feathers are recorded (5,4)
5 Hang on top of bathroom fixture (5)
6 Pass on message to abandon discussion (5,4)
7 Gradually reduce recording right (5)
8 Put right by engineers taking rig out (7)
14 Gathers material for brewers from cake and sweet outlets (4,5)
16 Services transport for large groups following current trends (9)
17 Ran over beds containing last fragments of hallucinogenic drugs (9)
18 Without hesitation buyers go through this on landing (7)
20 Some Americans pull over to observe climbing (7)
22 When it reacts it contains an explosive element (5)
23 A series of events which are related by Bond (5)
24 Survey is said to criticise cross (5)

Solution to Puzzle No.7,851



WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

JAPAN

GERMANY

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

AUSTRALIA

HONG KONG

MALAYSIA

SINGAPORE

CANADA

TORONTO

4:00 pm prices May 19

MONTREAL

4:00 pm prices May 19

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

	May 19	May 18	May 15
New York SE	187,030	149,830	192,040
Amex	15,581	10,051	11,792
NASDAQ	(u)	129,352	[illegible]
NYSE			
Issues Traded	2,272	2,275	2,230
Rises	986	1,039	624
Falls	703	706	1,034
Unchanged	583	530	[illegible]
New Highs	66	60	33
New Lows	21	16	24

CANADA

TORONTO

TOKYO - Most Active Stocks

Tuesday 19 May 1992

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4:00 pm prices May 19

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page.

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26	19⅞	Ryland Grp	0.60	2.8	19	581	21	20¾	21	-¼

- S -

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
21	16⅞	S Anita Rt	1.72	9.6	18	34	18¼	17⅞	17⅞	-⅛
18⅞	15¼	SCOR US Cp	0.28	1.8	8	16	16	15¾	15⅞	+¼
29½	24¾	SPS Techno	1.28	4.4	21	z100	29⅞	29⅞	29⅛	
1⅞	¾	Saatchi&S	0.19	15.2	12	186	1¼	1¼	1¼	
13¼	12⅛	Sabine Rt x	1.36	10.4	8	35	13⅛	13	13⅛	+⅛
17⅞	9	Safecard	0.15	1.4	10	87	10⅝	10¼	10⅜	+¼
16	11¼	Safeg'd Sc			6	17	13	12¾	12¾	-¼
30⅛	22⅝	SafetyKln	0.34	1.2	30	316	28¼	28⅛	28⅛	
20¼	14⅜	Safeway			25	690	14⅞	14½	14½	-⅛
4⅝	3	SafewayW95				431	3⅛	d2⅞	3	-⅛
41⅞	29⅞	StJoePaper	0.20	0.5	41	81	38¼	37⅞	37⅞	
34¾	30⅛	StJoeL&P	1.72	5.5	14	30	31¼	30⅞	31¼	+⅜
75¾	66½	St Paul's	2.72	3.8	7	98	70⅞	69¾	70⅞	+⅞
8⅛	2⅞	Salant Crp			1	5	5⅛	5⅛	5⅛	
75⅛	59⅜	Sallie Mae	1.00	1.6	16	5194	63	60⅛	63	+2⅝
14¼	13	Salomon Br	0.60	4.3		425	14⅛	14	14	-⅛
33¾	26¾	Salomoninc	0.64	2.1	9	1071	30⅝	30⅛	30⅝	+⅜
46	42⅛	SanDgo G&E	2.68	6.3	12	311	46⅛	45⅝	45⅝	
3⅞	2⅞	SantaFeEDv	0.40	13.3	16	2	3	3	3	
9¼	7	SantaFeERs	0.16	1.9	21	21799	8½	8¼	8½	+¼
36⅝	30¼	SantaFePac	2.80	8.3	10	49	33⅞	33⅝	33⅝	
14⅞	11	SantaFeSm			21	1936	12⅞	12½	12⅞	+¼
57	46⅝	Sara Lee	1.00	2.1	16	2091	48¼	47⅞	48⅜	+¼
8½	1⅞	Savin			0	34	2	1⅞	2	+⅛
44⅞	36⅝	Scana Corp	2.68	6.4	12	245	41⅝	41	41½	
47⅞	40¼	Seacorp	2.72	6.2	13	1130	44	43¾	43¾	+⅛

[illegible]

NASDAQ NATIONAL MARKET

4.00 pm prices May 19

[illegible]

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		27	3433	25¾	24	24¾	-1
Xoma Corp		10	4000	18½	17¼	18¼	+⅝
Yellow Fr	0.94	25	766	31⅝	31⅛	31½	-⅛
York Rsch		48	1157	6¼	5⅞	5⅞	-⅛
ZionsUtah	1.44	10	122	51½	50	50	

AMEX COMPOSITE PRICES

4:00 pm prices May 19

[illegible]

Price data supplied by Telekurs.

[illegible]

AMERICA

Hopes of another rate cut lift Dow to record

Wall Street

US SHARES, after trading in a narrow range on either side of opening values through most of the day, sprang to life yesterday afternoon and rose to a record level as investors responded to growing expectations of a further cut in interest rates in the wake of poor housing numbers, *writes Patrick Harverson in New York.*

The Dow Jones Industrial Average added 21.96 at 3,397.99, a shade above its previous record of 3,397.58 set on May 11, but turnover on the New York SE was light, with less than 190m shares changing hands. The Standard & Poor's 500 climbed 3.56 to 416.37, while the Nasdaq composite of over-the-counter stocks gained 1.52 to 578.05.

The day opened with the news from the commerce department that housing starts fell 17 per cent in April, more than three times the decline forecast. The drop in housing activity would normally have depressed stocks, but the fact that the data increased the likelihood of an easing of policy by the Federal Reserve restricted the damage.

Market sentiment was also aided by a fresh decline in bond rates, which in the case of the benchmark 30-year bond yield, fell to 7.75 per cent.

Upjohn rose $⅞ to $35⅞ in turnover of almost 690,000 shares after the US Food and Drug Administration panel voted to allow the company to continue marketing its controversial Halcion insomnia drug.

The ADRs of British Airways jumped $3⅛ to $55⅜ in active trading after the company reported a 119 per cent jump in earnings for the fiscal year ended March 31.

Dayton Hudson climbed $3⅜ to $62¼ on news of first-quarter net income of 40 cents a share, up from 39 cents a year ago and above the consensus of analysts' forecasts.

Polaroid firmed $⅜ to $26 after Mr Morton Langer, the industry analyst at broking house Bear Stearns, initiated coverage of the stock with a "buy" rating.

On the Nasdaq market, Nova Pharmaceutical was unchanged at $4⅜ in active trading after the Baltimore-based biotechnology company said that it had begun testing an anti-inflammation compound for the treatment of septic shock and inflammatory bowel disease.

Mesa Airlines moved ahead $2⅛ to $25¼ on the news that Kemper Securities had upgraded the carrier's shares and raised earnings estimates for the fiscal third quarter because of strong traffic gains and bookings.

South Carolina Federal advanced $3¼ to $21⅛ after stating that it was engaged in preliminary merger discussions with an undisclosed financial institution.

Canada

TORONTO ended slightly lower after moderate trading. The composite index lost 6.1 at 3,385.3 as declining issues led rises by 295 to 268. Volume came to 22.5m shares valued at C$255.7m.

Nine of the 14 sub-indices were lower, but there were no significant changes. Financial services and golds, the latter after early firmness, lost ground.

Military might crushes Thai equities

The civil unrest has upset attempts to encourage investment, says Peter Ungphakorn

Share prices suffered their worst falls in history on the Bangkok stock market yesterday, the first day of trading since the military crushed protests against the appointment of General Suchinda Kraprayoon as a non-elected prime minister.

Prices of all but three stocks fell, and many hit their floor prices – suffering declines of 10 per cent, the maximum permitted in a single day's trading. The SET index dropped 8.9 per cent to close at 667.84, down 65.05 from last Friday, its lowest close since December 1991. Monday was a bank holiday.

Stock market directors and members of the Securities and Exchange Commission said they had been watching the situation carefully to see whether the political crisis would justify closing the market.

They are scheduled to meet before the market opens this morning to decide whether the situation has eased overnight.

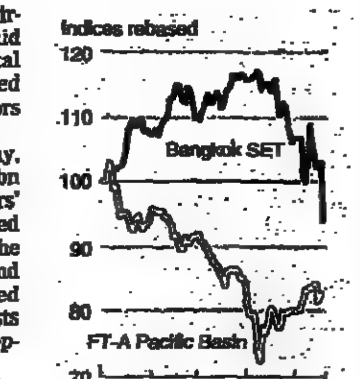
Mr Nibhat Bukkanasut, chairman of the SET board, said that Thailand's fundamental economic position remained sound and he urged investors to ignore rumours.

Trading was thin yesterday, turnover being about Bt3.14bn ($123m). Investors in brokers' trading rooms were reported to be more interested in the previous night's violence and the many unsubstantiated rumours about further protests and other political developments.

One broker attributed the sharp setback in prices and the low trading volume to the difficulty of obtaining reliable information.

Television and radio coverage of political events has been heavily censored, and telephone connections were severely disrupted yesterday, apparently by the high volume of calls, as people all over Bangkok tried to find out what was happening.

One group of investors was reported to have organised a petition calling for General Suchinda's resignation.



Source: Datastream

In the first quarter of the year, the market appeared to be heading for a recovery, after last year's global recession and the coup d'état in Thailand. After the March 22 general election, the SET index climbed to reach this year's peak of 832.39 on April 7, the day General Suchinda's appointment was announced.

Since then, the index has declined with increasing speed, except for a few days of short-lived recovery. The announcement on April 17 of General Suchinda's cabinet, which included a number of ministers from the government that he overthrew in last year's coup, and accused of being corrupt, set off sharper falls that only eased last week, when the crisis appeared to be resolved.

The nervous market has reacted particularly sensitively to political developments. On May 7, the index weakened 25.5 points in only about 10 minutes, the time General Suchinda took to make a controversial televised speech in parliament attacking his opponents.

For the SET, the political troubles come at an unfortunate time. Yesterday was the first day of trading under new legislation that is designed to reduce manipulation and political interference, encourage more companies to list, and promote new types of equity and loan papers. One of the objectives is to increase national savings in order to meet the rapidly expanding economy's surging need for investment.

A new Securities and Exchange Commission has been created with powers to set broad policy guidelines for the SET, and to supervise new share issues and trading in existing shares both on the stock market and over the counter.

Companies listed on the SET will have to become public companies within the next two years. The new law seeks to make this more attractive by easing some of the stringent conditions of the previous public company law, such as the requirement that a large proportion of shares be owned by many small investors.

ASIA PACIFIC

Traders move in on higher yen and bonds

Tokyo

EQUITIES gained further ground yesterday on the strength of the yen and higher bond prices, activity centring on trading of "environmental" and bio-technology issues, while leading institutions stayed on the sidelines, *writes Emiko Terazono in Tokyo.*

The Nikkei average was finally 311.01 ahead at 18,754.11, after opening at the day's low of 18,479.53 and reaching a high of 18,775.79 just before the close.

Volume rose from 216m shares to 320m. Traders said dealer activity led trading, while investment trusts were seen bargain hunting. They added that buying by foreign investors, who are reluctant to "chase" stock prices higher, has thinned out.

However, analysts said investor confidence was gradually recovering. Mr Jason James, strategist at James Capel, commented: "Investors, who previously were only willing to buy at the 17,000 level, came in to buy at the 18,000 level on Monday."

Advances far outnumbered declines by 833 to 172, with 118 issues unchanged. The Topix index of all first section stocks moved ahead 22.57 to 1,393.31, and in London the ISE/Nikkei 50 index put on 1.45 to 1,111.28.

Reports pointing to the possibility of postal insurance and annuity funds investing directly into the stock market also encouraged investors. Currently the funds can only be invested in the stock market through designated money trust accounts.

According to James Capel, if the plan were permitted, the direct investment by postal insurance funds could mean an inflow of Y5,000bn into the stock market.

Buyers followed good company results. Traders said firm forecasts from some companies were adding to the positive sentiment. Kyocera climbed Y120 to Y4,490. The semiconductor component maker posted a 27 per cent fall in pre-tax profits for the past fiscal year, but forecast a 6.8 per cent increase for 1992/93.

Mitsubishi Kasei rose Y13 to Y447 in spite of a 53.4 per cent drop in profits; it forecast a 5.4 per cent improvement for the current year.

Real estate issues continued to lose ground, with Mitsui Fudosan, which announced a pre-tax loss for the first time in 16 years, dipping Y10 to Y1,030, and Sumitomo Realty and Development, after posting a 31 per cent fall in pre-tax profits, shedding Y4 to Y734.

Reports that Showa Denko would produce biodegradable plastic developed by Showa Highpolymer sparked renewed interest in the environmental protection theme. Showa Denko gained Y43 to Y340 and Japan Metals and Chemicals appreciated Y20 to Y790.

In Osaka, the OSE average moved forward 315.15 to 21,347.42 in volume of 19.4m shares.

Roundup

THE worsening political situation in Bangkok had little negative influence on Pacific Basin markets yesterday as sentiment was buoyed by a stronger Tokyo. Manila registered a 1992 high.

HONG KONG traded in a narrow range and the Hang Seng index ended 5.15 up at 5,642.24 in HK$3.23bn turnover.

Brokers said rumours about HSBC's exposure to O & Y, of Canada, caused the bank to ease 25 cents to HK$43.25.

MANILA reversed Monday's losses in active trade on bargain hunting. The composite index rose 21.84 to 1,338.95 in combined turnover of 443.8m pesos.

SEOUL was held down by weakness in large-capitalisation issues. The composite index eased 0.08 to 587.97 in turnover of Won346.32bn.

TAIWAN saw late buying in financials, which helped to push the weighted index up 83.19 to 4,500.82. Turnover rose to T$26.58bn from T$22.67bn.

The market was buoyed by reports that the government might alter the stock transaction tax. The financial sector gained 4 per cent, with First Commercial Bank adding T$6 at T$106, after officials said last week that they planned to ease curbs on banks doing business in China.

KUALA LUMPUR opened firmer and then wavered in a narrow range throughout much of the day. The composite index edged up 0.57 to 590.91. Retail investors again dominated trading as institutional support remained small.

Newly listed Peladang Kimia saw 6.2m shares traded and closed at M$1.68 for a premium of 38 cents over its offer price.

AUSTRALIA declined in lacklustre trading. The All Ordinaries index lost 2.2 to 1,666.3 in turnover of A$179.5m. Banks were weaker ahead of forthcoming interim results and the sector index shed 25.1, or 1.1 per cent, to 2,205.1.

Westpac lost 6 cents to A$3.94 on rights issue rumours. National Australia, which releases its results tomorrow, dipped 10 cents to A$7.95. ANZ, which reports next week, was off 7 cents at A$4.36.

News Corp rose 12 cents to A$21.62 on news that its UK satellite unit had won the rights to televise games of the leading British football teams.

NEW ZEALAND recorded its seventh successive gain on the strength of firm overseas markets and the weak New Zealand dollar. The NZSE-40 index added 13.24 at 1,552.69.

Newspaper shares did well, with Independent Newspapers firming 10 cents to NZ$4.75.

SINGAPORE ended mixed in featureless trading. The Straits Times Industrial index edged ahead 3.08 to 1,469.80.

SOUTH AFRICA

JOHANNESBURG eased on profit-taking while gold shares were a touch firmer as the bullion price tested $340. The gold index rose 3 to 1,138 and the overall index was down 6 at 3,682. The industrial index shed 7 to 4,561.

EUROPE

Bourses fall back after Monday's enthusiasm

MOST bourses fell back after Monday's gains, *writes Our Markets Staff.*

FRANKFURT consolidated, with news of a 5.8 per cent building workers' pay deal helping to maintain the equilibrium. Carmakers and engineers, which led on Monday after the settlement of the metalworkers' pay talks, were mixed and the main move came in chemicals.

At Hoare Govett, Mr Robert Willis took the view that the pay settlements and the removal of the solidarity tax in the second half of this year should give the German consumer, and German equities a good run between now and Christmas. The DAX and FAZ indices seemed to support this, rising another 4.83 to 1,763.26 and 2.43 to 710.56 respectively.

Turnover fell from DM8.3bn to DM7.2bn. BASF and Bayer led chemicals up with rises of DM3.50 to DM243.90 and DM4.40 to DM293.90. Companies with long-term problems shed the gains achieved on Monday as Deutsche Babcock fell DM4 to DM167.50 and Porsche going further with a drop of DM15 to DM490.

Linde added another DM8.50 to Monday's DM24 gain, closing at DM852.50 after its forecast of at least 10 per cent turnover growth this year and satisfactory profits.

Continental, rose DM2 to DM265.50 on reports that the state government of Lower Saxony was encouraging companies in the state to take stakes in the tyre maker and on rumours that Sumitomo of Japan was interested in the Conti stake owned by Pirelli.

PARIS ran into profit-taking and arbitrage ahead of the close of the account on Thursday. The CAC-40 index fell 28.51 or 1.4 per cent to 2,023.13 in modest turnover of FFr2.2bn.

Générale des Eaux dropped FFr50 to FFr2,390 on news that it was spending DM1bn in buying and modernising Berlin's Defa film studios.

The biggest loser of the day was the insurer UAP which dropped FFr27 or 4.8 per cent to FFr541 in arbitrage-related trading. Another casualty was Euro Disney which fell FFr3.80 or 2.9 per cent to FFr124.

Pinault rose FFR6.30 to FFr371 amid talk that it was close to selling off its wood joinery activities.

MILAN fell back after Monday's brief recovery, dragged down by reports that Banca Commerciale Italiana (BCI) could face up to L1,000bn in back taxes and fines stemming from its takeover of a loss-making Milan state bank two years ago. The Comit index lost 1.85 to 472.80 in turnover estimated at L70bn-L80bn after Monday's L85.6bn.

BCI dropped L123 or 4 per cent to L2,918, dragging the rest of the banking sector down with it. Industrials bucked the weaker trend however, with Olivetti, gaining L47 to L3,032 and Fiat adding L6 to L4,941.

AMSTERDAM had a quiet day with the CBS Tendency index closing unchanged at 129.4. Fokker attracted some interest early on, rising 50 cents to Fl 36.60, following Monday's news that a consortium of European aerospace companies was negotiating to take a 51 per cent stake in the group. However, profit-taking pushed the price down to close 10 cents off at Fl 36.10, but above an intraday low of Fl 35.70.

KLM gained 10 cents to Fl 39.40 on rumours, later denied, that merger talks with BA had been reopened.

Unilever saw one of the day's biggest falls, losing Fl 1.00 to Fl 185.60 following its disappointing first quarter figures. However, some analysts feel that the group is in line for recovery, with earnings growth forecast for 1993.

STOCKHOLM recovered after a weak start to end flat. The Affärsvärlden general index eased just 0.2 to 998.4, in turnover of SKr580m.

Asea rose SKr4 to SKr377 after reporting a pre-tax profit of SKr624m in the first quarter, in line with expectations. But Volvo tumbled ahead of news that it swung to a pre-tax loss after financial items of SKr248m in the first quarter. Volvo B free's lost SKr4 to SKr431 at the close and was quoted at SKr429 in London later in the day.

COPENHAGEN registered its fifth successive decline, the all-share index falling another 2.80 to 334.26. The shipping shares, Svendborg B and 1912 B, fell by DKr3,200 to DKr133,100 and DKr3,100 to DKr93,400 respectively. Low turnover, ahead of the June 2 referendum to clarify Denmark's future relationship to the EC, continues to plague the market, *writes Hilary Barnes.*

MADRID's general index eased 0.86 to 259.76. Telefónica continued to attract buyers following Monday's pleasing first quarter results, gaining Pta10 to Pta1,115 in volume of some 2.6m shares.

FT-SE Eurotrack 100 - May 19

Hourly changes

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm	close
1184.39	1185.22	1182.78	1182.51	1182.23	1181.27	1180.17	1180.66

Day's High 1185.22 Day's Low 1179.25

May 18	May 15	May 14	May 13	May 12
1184.41	1171.24	1179.98	1187.91	1188.40

Base value 1000 (26/10/90)

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY MAY 18 1992								FRIDAY MAY 15 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (69)	151.83	+0.8	122.48	123.40	125.78	132.77	+0.5	4.15	150.47	122.60	123.84	126.30	132.05	153.68	140.94	144.83
Austria (19)	171.15	+2.9	138.24	139.29	141.97	142.08	+1.9	2.06	166.33	135.53	136.90	139.62	139.49	186.70	162.48	202.56
Belgium (46)	144.81	+0.9	116.96	117.84	120.11	117.31	+0.0	5.19	143.48	116.91	118.08	120.43	117.29	145.19	135.87	138.72
Canada (115)	127.41	+0.5	102.91	103.69	105.68	110.48	+0.0	3.32	126.83	103.34	104.38	106.45	110.48	142.12	125.60	138.91
Denmark (35)	242.47	-0.4	195.85	197.33	201.12	203.47	-1.1	1.80	243.34	198.28	200.27	204.25	205.69	273.94	226.81	237.62
Finland (15)	80.27	-4.0	64.83	65.33	66.58	72.96	-5.0	1.98	83.61	68.13	68.82	70.18	76.83	89.80	73.64	114.03
France (104)	168.75	+2.4	136.31	137.33	139.97	141.82	+1.2	3.33	164.88	134.35	135.69	138.38	140.18	168.75	148.06	136.36
Germany (65)	122.99	+2.4	99.34	100.11	102.01	102.01	+1.2	2.27	120.11	97.87	98.87	100.81	100.81	122.99	114.67	109.15
Hong Kong (55)	234.27	-1.1	189.23	190.66	194.34	232.63	-1.1	3.52	236.92	193.05	194.98	198.87	235.28	238.71	176.36	161.77
Ireland (16)	163.00	+1.7	131.66	132.66	135.21	137.32	+0.9	3.93	160.21	130.54	131.85	134.47	136.07	173.71	151.78	151.71
Italy (78)	69.45	+1.6	56.10	56.52	57.61	62.29	+0.5	3.39	68.39	55.72	56.28	57.40	62.00	80.86	68.39	75.89
Japan (473)	104.59	+2.9	84.48	85.12	86.77	85.12	+1.8	1.00	101.61	82.80	83.63	85.30	83.63	140.95	88.70	138.68
Malaysia (68)	237.28	+0.3	191.66	193.10	196.82	230.06	+0.0	2.82	236.58	192.77	194.70	198.57	230.06	250.18	212.49	227.54
Mexico (18)	1604.50	-0.8	1296.00	1305.82	1330.93	5445.27	-0.8	1.06	1617.16	1317.72	1330.95	1357.40	5486.24	1789.77	1376.91	981.07
Netherland (25)	159.73	+1.6	129.02	129.99	132.49	131.00	+0.6	4.26	156.95	127.89	129.17	131.74	130.16	159.73	147.88	135.82
New Zealand (14)	46.49	+0.6	37.55	37.83	38.56	46.20	+0.6	5.54	46.19	37.64	38.02	38.78	45.91	46.52	42.01	52.68
Norway (23)	190.90	+2.1	154.20	155.37	158.36	161.30	+1.0	1.58	186.96	152.34	153.87	156.93	159.74	192.95	161.26	201.86
Singapore (38)	216.70	+0.4	175.03	176.36	179.75	162.92	+0.0	2.00	215.77	175.82	177.59	181.11	162.92	228.43	192.76	203.10
South Africa (61)	249.44	+0.2	201.48	203.00	206.90	166.41	+0.2	2.72	248.98	202.88	204.91	208.99	166.08	263.60	203.16	208.92
Spain (50)	160.85	+0.4	129.93	130.91	133.43	121.56	-0.3	4.99	160.15	130.50	131.81	134.43	121.87	160.85	146.86	160.73
Sweden (25)	199.68	+3.1	161.28	162.51	165.63	169.82	+1.8	2.66	193.60	157.75	159.34	162.50	166.87	199.68	173.09	176.32
Switzerland (60)	107.27	+2.2	86.64	87.31	88.99	97.43	+0.6	2.20	104.99	85.55	86.41	88.13	96.85	107.27	95.89	92.62
United Kingdom (228)	199.91	+1.6	161.47	162.68	165.81	161.47	+0.7	4.60	196.69	160.27	161.87	165.08	160.27	199.91	165.85	170.07
USA (522)	168.28	+0.6	135.92	136.96	139.59	168.28	+0.6	2.98	167.32	136.34	137.71	140.45	167.32	171.66	160.92	150.74
Europe (789)	156.64	+1.8	126.52	127.48	129.93	129.02	+0.8	3.80	153.87	125.38	126.64	129.16	128.04	156.64	139.31	137.46
Nordic (98)	184.59	+1.3	149.10	150.23	153.12	150.50	+0.3	2.15	182.20	148.47	149.96	152.94	150.11	188.52	168.66	176.70
Pacific Basin (717)	110.48	+2.6	89.24	89.92	91.64	90.86	+1.5	1.38	107.79	87.83	88.72	90.48	89.53	141.97	94.40	137.47
Euro-Pacific (1506)	129.16	+2.2	104.33	105.11	107.13	106.64	+1.1	2.54	126.43	103.02	104.05	106.12	105.44	145.21	113.80	137.80
North America (637)	165.71	+0.6	133.85	134.88	137.48	164.34	+0.5	2.96	164.78	134.27	135.63	138.33	163.45	169.69	158.70	149.81
Europe Ex. UK (561)	131.00	+1.9	105.82	106.64	108.69	110.34	+0.8	3.18	128.53	104.73	105.80	107.91	109.50	131.00	121.81	117.62
Pacific Ex. Japan (244)	168.55	-0.1	136.15	137.20	139.83	149.74	-0.2	3.63	168.67	137.44	138.84	141.59	150.07	169.97	149.00	145.66
World Ex. US (1700)	131.38	+2.0	106.12	106.93	108.98	108.93	+1.1	2.56	128.77	104.93	105.99	108.09	107.79	146.91	116.45	138.97
World Ex. UK (1994)	137.46	+1.4	111.03	111.88	114.03	123.78	+0.9	2.47	135.54	110.44	111.56	113.78	122.70	150.58	127.21	138.16
World Ex. So. Af. (2161)	142.12	+1.5	114.80	115.68	117.90	128.75	+0.9	2.72	140.06	114.14	115.30	117.59	125.65	153.05	130.04	141.48
World Ex. Japan (1749)	164.32	+1.0	132.73	133.74	136.32	151.52	+0.6	3.29	162.76	132.63	133.97	136.64	150.67	164.54	153.20	146.00
The World Index (2222)	142.83	+1.4	115.37	116.25	118.49	127.29	+0.9	2.72	140.80	114.73	115.89	118.19	126.20	153.70	130.66	141.89

Latest prices were unavailable for this edition. Markets closed May 18: Canada, Malaysia and Singapore.

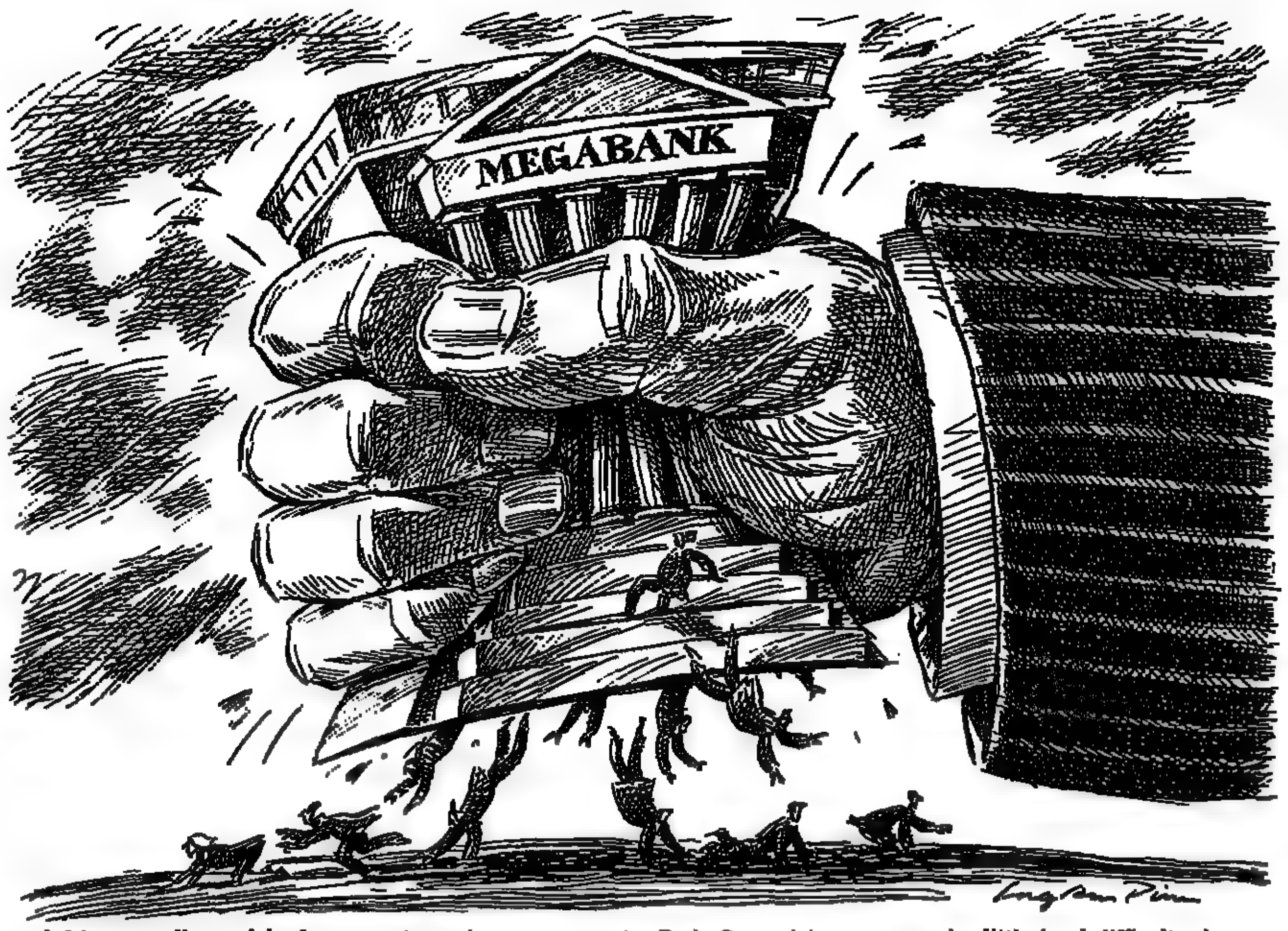
FINANCIAL TIMES SURVEY

WORLD BANKING

SECTION III Wednesday May 20 1992

In the 1980s, internationalisation led bankers from different countries to make identical mistakes in lending, writes Robert Peston. As national barriers continue to fall, recession has made more prudent analysis of risk a priority, and in some cases has led banks to consider forced or friendly alliances with former competitors.

Danger at the frontier



THE internationalisation of financial markets has for two decades been viewed by bankers as presenting great opportunities for profitable expansion. But right now bankers and bank regulators are concentrating rather more on the pitfalls of bringing down barriers to doing business across national frontiers.

The two great banking events of the past year are illustrations of such pitfalls. First there was the closure, last summer, of the Bank for Credit and Commerce International, which has caused huge losses for thousands of depositors.

Here was a bank mistrusted by the financial community that was nonetheless permitted to continue trading fraudulently for years. Much of the blame for this lies squarely with the international system for regulating banks.

BCCI cleverly put its domicile in a different country from those in which it carried out the bulk of its business. The supervisor in its home country, Luxembourg, did not have the resources to monitor properly its vast international operations.

So BCCI continued to take deposits long after it should have been closed down, had it been properly supervised. Thus the bank regulators of the leading industrial countries, grouped in the Basle Committee for Banking Supervision, are trying to come up with tough new rules, which would prevent any bank from operating in the major industrial economies unless it subjects its worldwide operations to proper scrutiny by regulators, among which one regulator would play a leading role.

The second big event has been the attempt by Olympia & York, the world's biggest property developer, to restructure its $12bn of borrowings. O&Y was in theory the text-book case of a company reducing the risks of its business by expanding across borders. If the inherent riskiness of the business had been reduced, the risk of lending to it should also have been reduced.

O&Y's 100 banks each have a different tale of woe concerning how they misunderstood the risks of lending to it. One example will suffice to show how the internationalisation of a business can provide false comfort.

In November 1990, after months of trying, O&Y succeeded in persuading a club of 10 banks to provide it with £490m to finance the construction of the Canary Wharf office development in London's docklands.

The banks had profound reservations about the £3bn project. They were concerned that the sheer scale of the development was excessive. They were convinced that the London property market was past its peak. They were concerned that transport links between Canary Wharf and central London were poor.

Yet they provided the money, because they obtained a guarantee from the parent company in Canada. If Canary Wharf failed, the mighty O&Y would bail them out – at least, that is what they believed.

But the banks, like O&Y itself, neglected one simple but crucial factor. Some of the causes of the decline in UK property prices were not unique to the UK alone. Recession was taking its toll not just of the London real estate market but also of those in Toronto and New York.

Internationalisation – the linkages between the economies in North America and Europe, and also between markets in the respective continents – had by no means mitigated the risks of lending to O&Y.

Another example of internationalisation bringing problems is the effect on financial markets everywhere of Japanese banks' relative shortage of capital. This is also an example of the costs incurred when bank regulators try to create a level playing field between banks operating in international markets.

By the end of this year, banks from all countries which are signatories to the 1983 Basle Concordat, are supposed to carry in their balance sheets an identical minimum amount of capital relative to their assets, known as a capital ratio. Banks are required to maintain these minimum capital ratios as a protection to their depositors.

However, many of the big Japanese banks have less than the required amount of capital. In part, this is because the Bank of Japan, the Japanese regulator, had for years set its banks different standards from those set by regulators in other countries.

The other big problem for the Japanese banks is that a substantial proportion of their capital is in the form of shares listed on the Tokyo Stock Exchange, and these have fallen sharply in value as the stock market has fallen.

This shortage of capital for the Japanese banks is not a little local difficulty, because in the 1980s the Japanese banks were the biggest lenders in international markets.

In order to try to meet the new capital requirement, the Japanese banks are both trying to raise new capital – and this is proving difficult – and calling in foreign loans and refusing to make new ones.

There is one positive effect for other banks. Without competition for loans from the Japanese, the margin on international lending has widened.

But there is also a powerful negative effect. A shortage of liquidity from Japanese banks is causing difficulties for some big borrowers. The UK's Eurotunnel, operator of the Channel tunnel and one of the world's biggest borrowers with £8bn of banking facilities, is one potential sufferer.

It has breached its borrowing covenants, and therefore needs to get the agreement of its banks to make drawings on its unused facilities. The company freely admits that it expects difficulties in obtaining this agreement from its Japanese banks – though it hopes that enough will give the waiver to the relevant banking covenant to allow the project to continue.

There is another aspect to the internationalisation of banking which is proving more salutary, and that is the spur provided by international competition to cost-cutting in the banking industry.

Though the competitive pressure from Japanese banks in lending to big companies has reduced, most banking markets remain relatively competitive, and cross-border competition is a factor in this. There is also a widespread expectation that further barriers to cross-border banking will come down – whether the borders are state ones in the US or national ones in the European Community.

It is no accident, therefore, that banks in many different parts of the world are reorganising their operations in broadly similar ways.

The thrust of the strategic moves which many of them are making is to increase productivity by reducing costs. In the US, there has been a wave of mergers and takeovers. In simplistic terms, the aim of the merger of Chemical Bank and Manufacturers Hanover in New York – and of the takeover of Security Pacific by Bank of America, in California – is to feed the revenues of two banks through the cost structure of just one. Lloyds Bank's attempt to buy Midland in the UK has similar aims.

In all these cases, the merger or takeover has foreshadowed enormous cuts in the workforce of the combined banks to reduce costs. Banks in many countries are more vulnerable to takeover than they have ever been, due to legislative and regulatory changes. But even banks choosing not to combine with others are shedding vast numbers of employees and endeavouring to become more productive.

All of which is good news for bank shareholders, who over the years have had reason to fear that banks' executives put too low an emphasis on earning a respectable return on capital. But if shareholders had one wish, it would be that the managers of their banks could become better judges of the risks inherent in different forms of lending.

Internationalisation in the 1980s often seemed to mean that bankers from different countries made identical mistakes in lending to highly borrowed companies and to property businesses.

Recession has forced most banks to reduce lending, so it is too early to say whether bankers have learned from their mistakes and have become better evaluators of risks. If there were a widespread improvement in bankers' basic lending skills, "internationalisation" would no longer be a dirty word.

IN THIS SURVEY

WORLD BANKING 2

Regulators may use sanctions to enforce capital adequacy targets, writes **Simon London**

Pressure for leniency resisted

THE DEADLINE by which international banks must comply with the Basle Accord on capital adequacy has not even been reached, but central bankers are already working on the next stage of prudential regulation.

Regulators are considering whether to enforce sanctions against banks which fail to meet the Basle targets, whether the original Basle agreement should be stiffened or slackened, and how new rules covering securities dealing should apply to banks.

Most international banks have until the end of this year to meet the Basle targets, with Japanese banks having until March 1993, the end of their current financial year.

From this time, all banks must maintain a minimum capital-to-assets ratio of 8 per cent. Moreover, half of total capital must be tier 1 or core capital, consisting of common equity and perpetual preference shares. The rest can be tier 2, or non-core, capital, including dated preference shares, subordinated loans and hybrid debt instruments.

Japanese banks may face the biggest problems in meeting the full 8 per cent capital ratio by the deadline. The decline in the Tokyo stock market has eroded unrealised gains on large securities holdings. Under the Basle accord, 45 per cent of these unrealised gains can count as tier 2 capital.

In the early stages of the Japanese equity market crash, new tier 2 capital was raised in the form of subordinated loans, often from institutional investors such as insurance companies. However, this year the fall in equity prices has been so swift that new capital cannot be raised fast enough to off-set the erosion.

IBCA, the credit rating agency which has specialised in the banking sector, estimated that the hidden reserves of the largest 20 Japanese banks shrank from Y34,992bn (£148bn) to Y18,693bn last fiscal year. With the Nikkei stock market average at around 17,000, most Japanese city or commercial banks are close to, or below, the Basle target.

Japanese banks are not alone in facing problems. The recession has led to increased provisions against bad debt. The full extent of write-offs – against the property sector in the UK and US, for example – may not be clear for another year.

However, the Balse committee has so far resisted pressure to ease the targets, either by changing the required capital ratio, extending the deadline, or allowing new hybrid debt-equity instruments to count as core capital.

Experience shows that capital ratios can be improved quickly, if the right steps are taken. Citicorp, for example, had a full Basle ratio of just 6.52 per cent in 1990. At the end of March this year, the ratio had improved to 8.12 per cent.

The bank achieved this by raising new tier 1- capital,

Gerald Corrigan heads the committee of central bankers

mainly by placing preference shares, cutting back on new loans and selling assets. For example, the sale of a controlling interest in Ambac, the financial guarantee insurer, both netted $350m (£196m) in cash and removed $25bn assets from the consolidated balance sheet.

Indeed, far from easing the targets, regulators are now asking what sanctions should be imposed on banks which fail to meet the Basle targets. No punitive measures were included in the original agreement, which is a purely voluntary undertaking.

A committee of central bankers, headed by Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, is looking at measures which could be taken against banks that are seen as inadequately regulated.

The committee was set up following the collapse of the Bank of Credit and Commerce International. National regulators feel that they have little control over the branches of foreign banks operating in their jurisdiction.

Central bank sources said that inadequately-capitalised banks would "by implication" be subject to the same measures as inadequately-regulated institutions.

The main proposal before the Corrigan committee is that host country regulators should be able to assume additional regulatory powers over foreign banks operating in their jurisdiction. This could be achieved by forcing foreign bank branches to convert to separately capitalised subsidiaries, fully regulated in the host country.

National regulators are also taking unilateral action, building the Basle agreement into law. For example, the US congress last year passed legislation giving the US regulators powers over under-capitalised banks.

The law allows "critically under-capitalised banks" to be placed under the control of the regulators, even though they are technically still solvent. Under which circumstances these powers could be used has yet to be described.

International regulators have also turned their attention to the securities business – including the securities operations of banks. New capital rules governing market risks such as underwriting, foreign exchange dealing, and bond trading could impose an additional burden.

Regulators argue that new rules should not lead to banks having to provide additional capital. Most securities holdings are already covered by the "broad brush" approach of the

> Japanese banks are not alone in facing problems. The recession has led to increased provisions against bad debt

Basle agreement. However, it is clear that more detailed rules will encourage banks to become more sensitive to the capital implications of types of securities business – running long positions of non-government securities, for example.

Banks may also be more careful about allocating scarce capital resources between different parts of the business.

Rules are being drafted by the European Commission, the International Organisation of Securities Commissions (Iosco), and central bank regulators meeting in Basle.

The Basle committee and Iosco have co-operated and hope to publish a first draft by the end of the summer. The EC capital adequacy directive has passed through several drafts, but remains stalled by political wrangling.

Bankers are concerned that the rules should give them equal treatment with non-bank securities firms. Some issues on this score have now been settled. For example, banks will probably be able to raise short-term subordinated loans – a type of tier 3 capital – as backing for positions, in the same way as non-bank firms.

But several areas remain controversial, such as the treatment of large securities exposures, capital backing for underwriting risks and the netting of short and long bond holdings.

Acquisition or alliance? **Peter Montagnon** on a single-market dilemma

Consolidation starts at home

THE DEVELOPMENT of the European single market has confronted bankers with a dilemma.

On the one hand, they feel under pressure to expand across the national frontiers that have hitherto divided the European Community. On the other, they know that, even if the theoretical barriers to such expansion have broken down, differences of market practice and tradition remain a formidable obstacle.

The problem is less acute with specialised wholesale banking, which is more or less a global business anyway, than with retail banking, which requires a physical presence in the foreign market.

That raises the question of how such a presence should be established. Should it be through acquisition and merger, or by collaborative alliances which may involve an exchange of shares? Or should it come through a direct attempt to establish a presence from scratch?

Of all these options, the latter is probably the most difficult of all. Customer preferences are deeply ingrained in national retail markets, and newcomers face stiff psychological resistance; but that does not mean the alternatives are easy either.

> In the Netherlands, a merger has produced a bank powerful enough to deflect outsiders from harbouring ambitions in the Dutch market

Though the run up to the single market has seen some cross-border acquisitions of retail banks, such as the purchase by Deutsche Bank of Banca d'America e d'Italia, bankers generally reckon that such an approach has many pitfalls for management unfamiliar with the territory into which they are expanding. The trouble is that collaborative alliances can also prove fragile and not particularly lucrative.

One of the older of such alliances is that between Banco Santander and the Royal Bank of Scotland, which involves the Spanish bank holding a 10 per cent stake in its Scottish partner. The relationship has allowed the Royal Bank to develop and market an online service, giving its UK customers effective access to Santander branches. This is now being extended to other European countries as well. Yet it is difficult to detect ways in which the relationship has been a dynamic generator of profits over the years. A cynical view might be that the greatest benefit of the arrangement, which also involves a Royal Bank stake of just over 2 per cent in Santander, is that it discourages outsiders from bidding for the Royal Bank.

Last year, meanwhile, saw the failure of efforts by Crédit Lyonnais and Commerzbank to agree the terms of a collaborative alliance, apparently following differences over strategic direction after German unification and a clash over Crédit Lyonnais' ambition to adopt a dominant role. Negotiations on a share swap between Dresdner Bank and BNP are proceeding, though this is clearly a lengthy process. In the meantime, the main thrust of their collaboration has been in countries outside the EC, such as Switzerland and Hungary.

It is thus ironic, but not surprising, that one of the main trends of European banking in the run-up to the single market has been for the industry to consolidate at national level. In this context, Lloyds' interest in acquiring Midland scarcely seems out of place, even if it does pose competition policy problems in the UK. According to the OECD, the number of European bank mergers within national borders is running at nearly twice those across borders within the Community.

Ashley Ashwood

Crédit Lyonnais failed to agree an alliance with Commerzbank, after a clash over the French bank's wish to adopt a dominant role

Crédit Lyonnais is profiled on page 6 of this survey

The trend is clearly seen in the experience of Dutch banking. After the failure in 1989 of the proposed merger between Amro Bank and Générale de Banque, of Belgium - attributed in part to the difficulty of maintaining separate identities for the two banks within their old home markets - the Dutch bank turned instead to a merger with its compatriot, ABN. The result is a bank powerful enough to deflect outsiders from harbouring ambitions in the small Dutch market, while also being of a size large enough to expand abroad.

The trend to consolidation is yet more marked in the countries of southern Europe, where banking was less well developed before the single market concept was launched. Having realised that its high margins made Spain a juicy prospect for foreign banks, the authorities there actively promoted a process of consolidation, starting with the merger of Banco Bilbao and Banco Vizcaya in 1988. The process was far from easy, but has produced results in the form of significant cost savings.

Under its Amato law, which confers tax privileges on banks which merge, Italy is belatedly following suit. The prime motivation may be the modernisation of the industry and financial system in a way that will discourage predatory foreigners; but mergers in the home market also appeal, because they create much greater scope for cost savings.

Lloyds, for example, has identified some £700m annually that could be saved if it were allowed to amalgamate with Midland. The alternative offered by the Hongkeng and Shanghai Banking Corporation is a strategy of regional synergies, whose benefits are harder to quantify.

A similar lesson emerges across the Atlantic, where mergers such as that between Manufacturers Hanover and Chemical Bank have as much to do with the cost savings from rationalisation than with a desire to benefit from liberalisation of interstate expansion. The US, it will be recalled, already has the benefit of a single currency. Only when that comes to Europe, too, are cross-border mergers of banks likely to make a great deal of sense.

WORLD BANKING 3

The top 10 US banks, based on 1991 year-end assets

	Assets ($bn)	1991 net income ($m) (loss)	% change on year	1st qtr 1992 net income ($m) (loss)	% change on year	Common equity to assets ($m)
Citicorp	216.9	(457.0)	n.m.	183.0	+97	3.40
*Chemical Banking	138.9	154.0	[illegible]	280.0	+44	4.10
†Bank America	115.5	1,124.0	+26	303.0	+7	5.83
‡Nationsbank	110.3	201.9	[illegible]	310.0	+35	3.67
J.P.Morgan	103.5	1,114.0	+44	299.0	+10	5.39
Chase Manhattan	98.2	520.0	n.m.	141.0	+30.5	4.36
†Security Pacific	76.4	(774.5)	n.m.	(405.3)	n.m.	4.11
Bankers Trust	64.0	667.0	6	175.0	+9	4.55
Wells Fargo	53.5	21.0	-87	119.0	-22	5.24
First Chicago	49.0	116.3	[illegible]	60.7	+23	5.1

*Figures have been restated to show combined data for Chemical Banking and Manufacturers Hanover.

†BankAmerica and Security Pacific have not stated their pro-forma 1991 results. When unified, the merged bank will rank as the second largest commercial bank.

‡Figures have been restated to show combined data for both NCNB and C&S/Sovran, which merged on December 31, 1991, and is now Nationsbank.

Source: company report — *Research: Rivka Nachoma*

Ashley Ashwood

Alan Greenspan has expressed his support for interstate branching, but doesn't think legislation will occur this year

America's banking system is bloated with excess capacity, and the need to streamline has become urgent, writes **Alan Friedman**

Merger wave continues amid hopes for interstate reform

IT HAS been a time of reckoning for America's commercial banks, a time of facing the realities of lean economic times, the mistakes of the past and the need to restructure.

The past 18 months have seen huge loan losses at some of the largest US banks, many of them caused by the crisis in the commercial real estate market and the lemming-like plunge into such lending by many banks in the latter part of the 1980s.

Yet bankers rarely seem to learn from their mistakes. Late in recognising their problems, as they were in the sovereign debt crisis of the early 1980s and in the leveraged buy-out lending a few years on, many American bankers were last year forced not only to make record-level bad debt provisions, but to confront a more fundamental and more structural problem: America's banking system is bloated with excess capacity, and the need to streamline has become urgent.

Some banks are already expanding interstate, taking advantage of the varying state laws

Until last December, there were many who thought that legislative reform would provide some degree of speedy relief. They were wrong. The US congress abdicated most of its responsibilities and approved a weak, compromise bill that skirted the most urgent priorities, such as giving banks the right to expand into equity, underwriting, insurance and other financial services areas.

The biggest issue that US bank reform legislation ignored was the rather reasonable and economically useful proposal to allow banks the right to open branches across state boundaries.

Some big banks, most notably institutions such as Bank of America and Banc One, are already expanding interstate. They are able to take advantage of the varying state laws around the country. But the system is not uniform.

The US, with all its potential economies of scale, is thus one of the few western countries that does not allow its high street banks the right to operate nationally. This, in turn, can create enormous and excessive administrative costs. For example, a bank must have separate boards and administrative operations just to have branches on both sides of the Hudson River in New York and New Jersey.

The interstate branching debate flared again recently, when authorities in Washington gave savings banks the right to go national. Both complaints and then lawsuits began flying at the savings bank regulators from smaller, independent banks, while the big commercial banks simply became furious.

Mr Alan Greenspan, chairman of the Federal Reserve Board, has expressed his support for interstate branching on several occasions, most recently in a speech in Chicago this month. The Fed chairman said there would be "significant cost savings" in the mega-mergers that could follow the passage of such legislation.

"Market forces will ultimately prevail," Mr Greenspan argued, but he added that he didn't think such banking legislation would occur in 1992. Rather, he predicted that a helpful political climate would favour the legislation in 1993.

Mr Greenspan's political instincts were, as always, fine-tuned. Few Washington insiders expect interstate branching to be approved during a presidential election year, when the White House is doing its best to alienate as few special interests as possible.

Yet the wave of mergers that would undoubtedly expand with such legislation is already under way. Last year saw three giant mergers, beginning with the joining of Chemical Bank and Manufacturers Hanover Trust in New York.

The Chemical merger not only created the third biggest US bank, with $136bn of assets, it also will result in more than $750m of annual cost savings over the next three years. Already this year, Chemical is ahead of its target, proving that one can slash back-office costs by a substantial amount – and especially when the banks being merged are in the same market.

The marriage of Bank of America and Security Pacific in California – really more of a rescue of the troubled SecPac – is another example of how costs can be cut in a transaction in the same geographic market. The projections from California call for $1.2bn of annual savings by 1995, with up to 12,000 of the combined bank's 91,000-strong workforce being made redundant.

The third big merger, between NCNB of North Carolina and C&S/Sovran of Georgia, was across state boundaries, but it would undoubtedly benefit even more if full interstate branching laws were on the federal books.

Mergers are, of course, not the only solution to America's banking woes. The strengthening of capital ratios is another priority for many regulators, and banks have gone some distance to bolstering their bases by selling off less strategic assets. The toughest challenge is faced by Citicorp, the biggest US bank and ironically the weakest of the top 10 in terms of capital ratios.

Citicorp's problems, including its heavy real estate exposure, have been the constant subject of speculation in the banking community. Mr John Reed, the chairman of Citicorp, has been sharply criticised for sloppy management of the bank by many of his peers.

Mr Reed, however, is determined to strengthen the bank's capital and clean up the mess as soon as possible. And there have been signs he is making progress.

Looking ahead, it seems fair to say that some of the worst of the problems facing the US commercial banking sector are over. The skies, as Mr George Salem, of Prudential Securities, put it recently, appear to be clearing.

A recent analysis of prospects for US banking, by Salomon Brothers, suggested that perceptions of the real estate crisis have now shifted from being "life threatening" to being more in the "nuisance" category. That may be a trifle facile, because it is hard to generalise. Bad debt provisions will still be very high this year at a number of US banks. But at least one can begin to see recovery down the road.

WORLD BANKING 4

Stefan Wagstyl considers Japan's difficulties

A cloud over credit

JAPANESE BANKS face their most severe financial recession since the second world war. Fears that they might not be able to cope with the strain are so widespread that the authorities last month took the unprecedented step of announcing estimates of banks' financial results, and gave an official assurance about the health of the banking system.

The banks' main problem is a shortage of capital, compounded by an increase in bad loans caused by the collapse of the financial boom of the late 1980s when stock and land prices soared.

At the same time, a slowdown in the Japanese and world economy is reducing openings for profitable new business, so limiting the opportunities for banks to restore their balance sheets with increased profits.

Bankers say it could take five years to get over the difficulties caused by bad loans. It is premature to talk of a credit shortage – since loan demand is sluggish in Japan due to the economic slow down. But any recovery could be stifled by the lack of credit. At the very least, borrowers at home and abroad could find credit more difficult to secure than at any time since the 1970s, and more expensive.

The outlook is not wholly bad – banks have responded rapidly to the challenge, weeding out unprofitable business and concentrating on boosting profits. The stronger banks will remain formidable competitors in domestic and international markets; the weaker are in danger of losing their independence.

Also, even though deregulation has reduced the Japanese authorities' ability to control the markets, both the Bank of Japan and the Ministry of Finance have made it clear that they will support the banking system. The authorities are determined Japan should not suffer the ignominy of its first post-war bank bankruptcy. "Our banking system is very sound. Excessive concern is unnecessary," says a ministry official.

Furthermore, if Japanese banks are suffering, so are many of their international competitors, as shown by the current cash crisis at Olympia & York, the Canadian property developer.

The finance ministry said operating profit for all 153 Japanese banks rose 26.8 per cent to Y3,659bn (£15.5bn), boosted by declining interest rates. Pre-tax profits fell 17 per cent to Y2,799bn, due to aggressive write-offs for loans and investment loans, including those related to the property market. Net after-tax profits fell 24 per cent to Y1,379bn.

These figures show how banks have exploited recent declines in interest rates to increase their lending margins, and their success in cutting costs. However, the results are historic. More important is the amount of capital banks have for the future and the extent to which this will be eroded by write-offs on bad loans.

The problem is to meet the international capital adequacy standards set by the Bank for International Settlements, which come into force at the end of March 1993. Most leading banks met the BIS standard of 8 per cent ratio of capital to assets at the end of March 1992. But Japanese banks count as capital a portion of their unrealised gains in securities – and these were hit by the stock market's sharp fall since March.

Banks can improve their capital adequacy ratios either by boosting capital or by cutting asset growth. Japanese banks have done both: they raised equity until the stock market plunged in 1990, then they took out subordinated loans, which for BIS purposes count as a form of capital. Meanwhile, they cut asset growth sharply – from a peak of above 15 per cent in the late 1980s, to an estimated 4 per cent in the year to the end of March 1992.

Banks plan very small increases in assets this year – and little or no growth in overseas assets. However, they intend to wait until the second half of the year before they made any drastic decisions, such as turning away needy borrowers. They hope that the current extreme weakness in the stock market will prove temporary. Borrowers in some sectors, notably property, are squealing for credit. But their problems do not stem from BIS-imposed constraints, but from the worldwide plunge in property prices.

Fortunately for Japanese banks, BIS rules contain no sanctions. It will be for the Japanese finance ministry to decide what penalties to impose – and it is unlikely to do anything which might undermine the banks' interests at such a delicate time. US and European regulators are also unlikely to put pressure on Japan for fear of the possible impact on international confidence in Japanese banks.

Much depends on how much bad debt needs to be written off. According to the finance ministry, write-offs for all banks rose sharply last year to Y639.3bn. The ministry estimates leading national banks had Y7,000bn-Y8,000bn in bad loans at the end of the fiscal year, that is loans on which no interest had been paid for six months. However, all but Y2,000bn-Y3,000bn was covered by collateral, said the ministry. Since, even after recent stock market falls, banks had unrealised portfolio gains of Y17,000bn, banks could easily cope with bad loans, said the ministry official.

Industry analysts put total bad loans at up to Y20,000bn, sometimes more. However, much depends on how such loans are calculated. Similarly, the value of collateral is often difficult to establish, given that much of is property and the property market is now weak.

Squeezed by the shortage of capital and mounting bad loans, bankers are naturally cautious about new lending. They are seeking better security and higher margins than in the high-growth years of the late 1980s. They are also likely to favour old-established blue-chip Japanese companies over other customers they may know less well. However, since blue-chip borrowers pay lower rates of interest than most clients, even they may find credit a little tighter. For example, banks have been asking customers with large cash balances as well as borrowings to use a portion of these balances to repay debt.

But with the Japanese economy still slowing and companies cutting inventories, it is is too soon to forecast how severe any credit shortage might be. Certainly, those who know they will need funds next year, to refinance existing borrowings or bonds which fall due, are worried.

Banking sans frontières? Technology may help

Winners and losers in a European game

EUROPEAN MONETARY union – a single currency across the member states of the European Community – would have profound effects on the banking sector. But the winners and losers are far from clear at the moment, and the changes may well be gradual rather than dramatic.

One impact would be on the foreign exchange markets. A unified European currency would mean that there would no longer be any trading between the various countries' monetary units – and thus on the foreign exchange profits of banks.

Mr Christopher Ellerton, banking analyst at Warburg Securities, says this point should not be over-emphasised. The bulk of foreign exchange trading is currently on the dollar/yen, dollar/Deutsche Mark and sterling/dollar cross-rates. Such trading would not be affected by a unified currency, save that the D-Mark might be replaced (in name, at least) by the Ecu.

Nevertheless, some of the smaller currencies will have provided lucrative niche markets for forex traders. And, of course, Europe's tourists will not need to change their money every time they cross a border – and pay banks commission income on each occasion.

One researcher set off from Brussels to visit all 12 Community nations with BFr1,200. Rather than spend any money, he simply exchanged his cash for the local currency in each place. By the time he returned, he was left with only BFr596, less than half his starting capital.

A unified European currency would, of course, mean that the same level of interest rates would prevail across the Community. Given that UK interest rates have tended to be higher than the European average, this might affect some UK banks, according to Mr John Aitken, banking analyst at County NatWest. UK banks have been used to a high level of interest rates, which creates an "endowment effect" on their profits, by charging high rates for loans and offering low returns on current accounts. (Although, as a counterbalance, high interest rates normally lead to increased bad debt losses.)

But what about the dream of a genuinely open European banking market, with banks of all nations offering services to customers across national markets? It may take a long time to appear, according to some experts.

It is difficult to imagine retail banking products being readily sold across European boundaries within the next 10 years, according to Mr Aitken. Products are difficult to compare, because of the different ways that banks can charge – some via straight fees, some via higher rates for overdrafts, and the subtly different services on offer. "Most people will vote with their national prejudices," says Mr Aitken. "Banking products are not readily exportable," according Mr Ellerton, at Warburg.

> Cultural differences could mean that progress will be slow

Technology may break down some of the barriers. Services such as Directline insurance (a subsidiary of the Royal Bank of Scotland) may set a trend for telephone-based financial services. The FirstDirect telephone banking services is the kind of product which might be relaunched (via a different name) in other EC countries.

But the sheer strength of the branch networks built up by banks on the continent and in the UK means that acqusition and merger are much more likely routes to cross-border banking links, than direct competition.

Even before monetary union, the prospect of the single European market, due to come into force at the end of this year, had prompted a number of cross-border banking deals.

Some deals have been unambitious, such as a five-bank deal signed in 1991 which allowed customers of Crédit Agricole of France, Rabobank of the Netherlands, Banco Ambrosiano of Italy, Lloyds Bank of the UK and Bayerische Vereinsbank of Germany access to each other's branches.

The best known link is the Deutsche Bank takeover of Morgan Grenfell, but there have been a number of deals in the field of fund management. Here, the trend has been for continental banks to take over UK investment groups, in search of the generally acknowledged equity management expertise that London-based companies are perceived to have.

A single currency ought to put a premium on such skills. Investment institutions have traditionally held the bulk of their assets in their own markets, in part because of currency risk. With a unified currency, domestic and other EC assets ought to be interchangeable; as a consequence, institutions should shift a far greater proportion of their portfolios into other European markets. They will need international managers to look after those assets.

On the retail front, fund managers hope eventually to sell mutual funds Europe-wide via the Ucits (undertakings for collective investments in transferable securities) system. The "international rich", who often live in more than one country, are the ideal target market.

Banks have traditionally dominated the investment market on the continent, and thus should benefit from any cross-border Ucits growth. But to date, the bulk of Ucits money has merely moved to Luxembourg from other offshore centres as investment companies have moved to centralise their cross-border funds.

Again, a single currency ought to help the growth in Ucits investment. But cultural differences, such as continental preference for bond over equity investment (and the reverse bias in the UK), could mean that progress, as in other financial services fields, will be slow.

Philip Coggan

Nordic players blame the new rules

NORDIC BANKS incurred heavy losses last year, and the events of early 1992 suggest that many are again likely to suffer from substantial credit losses and a high level of non-performing loans.

With hindsight, bankers claim that the rapid deregulation of the Nordic countries' financial markets during the 1980s is partly to blame for the sector's woes.

Finland, Sweden and Norway led a sheltered existence, with strict controls on lending. When restrictions were lifted in the mid-1980s, banks scrambled to lend to companies and individuals, often paying little heed to creditworthiness.

The consequences, particularly to the real estate sector, became only too clear in the 1990s as the Nordic economies were hit by recession.

In Sweden, the government announced this month that it would nationalise Nordbanken, as the bank faced mounting credit losses and was in danger of failing to meet the capital adequacy requirements set out by the Bank for International Settlements. Nordbanken, which was already state-controlled, ran up credit losses of SKr10.5bn (£1bn) in 1991.

The government's SKr20bn rescue package came only a few weeks after it had been forced to announce a SKr7.3bn rescue package for Första Sparbanken, the troubled savings bank hit by heavy losses in the property and construction sector last year.

So far, the credit losses have related mainly to the real estate and finance companies. However, some analysts express concern that, as unemployment in Sweden looks set to rise, the next wave of bad loans could arise in the private sector as households find it difficult to repay their debts.

In Finland, the central bank was forced to propose a rescue package for the banking sector in March, having already stepped in to take over Skopbank, the country's main savings bank.

> When restrictions were lifted, banks scrambled to lend, paying little heed to creditworthiness

The rescue package consisted of measures to bolster the banks' capital adequacy ratios and restore confidence in the sector by setting up a new FM20bn (£2.5bn) government deposit guarantee fund.

The Finnish economy is suffering from a deep recession, due partly to the collapse of trade with the former Soviet Union and the downturn in the forestry sector. The government was worried that banks would have to cut back their loans in order to meet the 8 per cent capital adequacy requirement, leading to a credit crunch and hindering an eventual recovery in the economy.

Last year was also a bad one for the Norwegian banks, with the big three – Christiania Bank, Den norske Bank (DnB) and Fokus Bank – reporting combined net losses of NKr16bn (£1.4bn). The government was forced to prop up the ailing banks, nationalising Christiania after its capital had been wiped out and providing a cash injection for DnB.

Moody's Investor Services, the credit rating agency, recently warned that Christiania and DnB were unlikely to break even this year.

Compared with the catalogue of disasters in Norway, Finland and Sweden, Denmark can boast that its banking sector is in a relatively healthy state. There have already been signs of rationalisation, with the smaller financial institutions being bought by larger concerns in recent years.

As in the other Nordic countries, analysts point to the need to reduce staff and branches in these heavily overbanked markets if costs are to be reduced. Even so, the worry is that many banks in the region will continue to be plagued by credit losses and that recovery will be slow.

Sara Webb

WORLD BANKING 5

UK clearers face two serious post-recession problems, says **Peter Montagnon**

Low inflation a mixed blessing

LAST YEAR was not one which UK bankers will care to remember. After provisions against bad and doubtful debts of £6.8bn, the nine English and Scottish clearing banks made pre-tax profits of just £2.3bn, according to a calculation by the US investment bank Shearson Lehman.

It would be nice to think, that, as the economy starts to show signs of recovery, management could now could sit back and look forward to better times ahead.

Unfortunately life is not as kind as that. The clearing banks are emerging from the recession with two serious problems on their plate.

One is their continuing troubles with loans to the property sector, which may now take many years to sort out. The other is still more fundamental, and has been thrown into sharp relief by the debate over the future of the Midland Bank. The banks must somehow find a way of making a satisfactory return in an overcrowded market where loan demand looks set to remain sluggish at best.

The environment in which these problems must be resolved is not particularly propitious. The prospect of low inflation, which should follow from the UK's membership of the European exchange rate mechanism, may be, as the government claims, a prerequisite for sustained economic growth.

For a banking industry struggling to come to terms with the over-indebtedness of its customers, however, it can be more of a hindrance than a help.

Andrew Mears

Black horse v Griffin, fortuitously in the Sussex village of Battle

Unlike previous recessions in the property market, inflation is not floating the sector off the rocks. Property prices, both commercial and residential, have actually fallen in nominal terms during the recession, exposing lenders in an unaccustomed way. As real interest rates remain high, the chances of a speedy turnround look remote. The consequence for the clearing banks looks likely to be another year of high provisions in 1992, slowing their recovery from the recession.

Though base rates have fallen by 5 percentage points from their peak of 15 per cent, they remain positive in real terms by some 6 per cent. That means that loan demand is unlikely to revive strongly in the foreseeable future, limiting the prospects for the industry to raise its profits from other forms of lending to offset provisions on property loans.

> The competitive environment requires banks to pay interest on their current accounts

In the admittedly recessionary year of 1991, the domestic loan books of UK clearing banks grew by only 2 per cent. The recovery might bring some improvement, though this may also be offset by a growing trend for large companies – especially those with the best credit ratings – to re-finance their debt at attractive fixed rates in the bond market.

The banks are also squeezed, in two ways, by the fall in nominal interest rates.

First, it reduces the profit they can make by lending out their so-called "free-capital", such as retained profits. Second, the determination of the government to track falls in money market rates with politically attractive cuts in base rates has limited the scope for interest margins to increase as rates have declined. The situation in the UK is in stark contrast to that in the US, where the federal funds rate has been cut far more sharply than bank prime rate.

Worse still, the banks face a competitive environment which requires them to pay interest on their current accounts. It is thus hardly surprising that they are now scrambling for other ways of boosting profits and rebuilding capital after the ravages of the recession.

One consequence is an obsession with boosting fee income, notably through increased emphasis on life assurance products which can be easily distributed through the branch network. The clearing banks' collective ratio of non-interest income to total income rose to nearly 41 per cent in 1991 from 38 per cent in 1990.

There is a limit, however, the extent to which fee income can offset the impact of a basically stagnant loan book. Clearing banks have come increasingly under fire for imposing apparently arbitrary and heavy charges on their retail customers, for example, for unauthorised overdrafts. Small businessmen, too, have complained vociferously about higher charges.

The best scope for improving underlying profitability thus probably still lies with further effort on cutting costs, which is where the debate on Midland's future comes in. Both Lloyds and Midland managed to keep total operating costs broadly unchanged last year, while those at Barclays rose by 14 per cent and at National Westminster by 7 per cent. As things currently stand, however, there is not much scope for further cuts. Announcing its annual results, Midland pointed to the need to spend to maintain and improve the quality of its services.

The message for the industry is clear. A more radical rationalisation is needed if efficiency gains are to be realised. The scope for savings could be enormous, as the Lloyds bid proposal for Midland shows. Lloyds suggests that annual savings of some £700m could be generated by amalgamating the two banks, though 20,000 jobs and perhaps up to 1,000 branches would disappear in the process.

Whatever the outcome of the LLoyds bid, it seems likely that the process of rationalisation and branch closures will continue. That is one reason why many senior executives, even among Lloyds' competitors in the industry, privately admit to hoping the UK bank will win. A victory for Hongkong and Shanghai Banking Corporation would strengthen one of the weaker players in the marketplace, putting everybody else under even greater pressure to rationalise.

That, more than anything else, is testimony to the sorry state of an industry, which now sees cutting costs as its best hope for increasing profits.

David Barchard profiles **GE Capital**, the US non-bank with its eye on Europe

Giving the banks a run for their money

"All over the world, banks love to use us as their whipping boy. When talking to their regulators, they give us as an example of what they could do if they had no regulation to contend with."

THE SPEAKER is Mr Gary Wendt, chairman and chief executive officer of GE Capital Corporation, and president and chief operating officer of GE Financial Services, its immediate parent company, which also includes Kidder Peabody, the investment banking and securities firm.

Last year GE Financial Services contributed $1.27bn (£711m) of General Electric's $4.4bn profits, making it the most profitable of its 14 subsidiaries. More than four fifths of GEFS's earnings came from GE Capital.

Only the top half dozen US banks are larger. With assets of $80bn, spread between 22 subsidiaries, including commercial real estate finance, retail financial services, mortgage services, aircraft leasing, private mortgage guarantee insurance, and the credit card and private label card businesses, GE Capital operates businesses traditionally owned by banks and insurance companies.

But although some of the subsidiaries it has purchased in recent years have banking licenses, neither GEFS nor GECC is a bank. In the mid-1960s, General Electric decided that it no longer needed a financial services organisation to support the sale of its products, and decided to let GEFS go its own way.

Gary Wendt: 'You get strength from diversity'

Today, only 3 per cent of GEFS' business is linked to the sale of General Electric products. The group has evolved into the second largest non-bank finance group in the US (the largest belongs to General Motors), funding not from deposits but by issuing commercial paper with a triple-A rating from Moody's and S&P.

"That means that the rating agencies are, in fact, our regulators," says Mr Wendt. "We have no government protection and we have to compete in the free market for our money."

To be sure of doing this successfully, GECC maintains much stronger capital ratios than it would do if it were a bank. About 12 per cent of its total assets are kept in liquid capital, and it lends about eight times its capital, about half what it would do as a bank.

In the last three years, however, GECC's return on equity has stayed above 15 per cent. "We are not a single organisation, but 22 separate but specialised organisations, each concentrating on its own important segment," says Mr Wendt. "You get strength from diversity. When one business is not going so well, the rest can pick up the slack." This policy has sheltered GECC from the risks of some of its chosen areas: commercial real estate, aircraft leasing, and leveraged buy-outs.

It has also enabled GECC, in its selected niche markets, to expand steadily further into overseas markets, starting with the UK. It now has 10 different business subsidiaries in Europe, including store-card business in the UK, which it virtually dominates after having bought out the financial services arms of Harrods, House of Fraser and Burton Group; Mercantile, the car loans business, purchased from Barclay's Bank last year; and a 3 per cent stake in Banco Bilbao Vizcaya, of Spain.

In February came an agreement to buy the vehicle leasing and fleet management business of Avis Europe, the car rental company; followed on May 1 by the purchase of a 50 per cent state in United Merchants Finance (UMF), of Hong Kong. On May 10, GECC bought 45 per cent of Finanzia, a specialised financing company, as a first step to a joint-venture in retail leasing and store-card businesses in Spain and Portugal.

Once purchased, provided good local management is in place, GECC makes only minimal interference and keeps a low profile. At Mercantile, for example, purchased a year ago, GECC has only one or two US citizens out of a workforce of 2,000. All the new European businesses are, Mr Wendt says, firmly in the black. "We are able to do things on a less expensive base than the retailers can themselves, and let them release [consumer] debt from their balance sheets and reduce their interest rate risk."

Where GECC encounters businesses that are unlikely to stay in the black, it does not compromise. In the UK, it decided that about 1,800 small store-card outlets were uneconomic and stopped their card-issuing scheme, to the dismay of some smaller retailers.

Since April 1990, GECC has also become a significant issuer of sterling-denominated commercial paper, in line with its policy of funding operations in local markets as far as possible.

> Where GECC encounters businesses unlikely to stay in the black, it does not compromise

It now accounts for about 6 per cent of the sterling CP market. It is also starting to emerge as a significant CP issuer in other European markets.

For GECC's eyes are now on possible acquisitions in its chosen areas in almost every western European market. It is a remarkable contrast to the general picture of withdrawal from European retail operations by most large US banks. Europe's banks may not enjoy living alongside a large US non-bank finance group, but whipping boy or not, they are going to have to do so.

WORLD BANKING 6

Alice Rawsthorn looks beyond a disappointing results season

Life gets tougher in France

THESE DAYS there is a somewhat subdued tone to the grand old banking halls straddling the streets around Boulevard Haussman in Paris.

France's banks may have been spared the same ravages of recession that have haunted their counterparts in the US and the UK, but they have just emerged from a second successive year of fierce pressure on profits and a worrying rise in bad debts.

When the big French banks unveiled their 1991 results this spring, their outpourings did not make pleasant reading. Paribas, the prestigious investment bank, began by announcing its first ever loss, of FFr184m (£18.6m). Crédit Lyonnais confirmed its critics' worst suspicions about its aggressive expansion in the late 1980s by disclosing a decline in net profits from FFr3.7bn to FFr3.2bn after doubling client risk provisions to FFr9.5bn.

Société Générale struck a brighter note by returning to profits growth, after a fall in 1990, as did Banque Nationale de Paris. But neither group managed to return to the same level of profits as in 1989, their last year of growth.

The performance of the smaller banks was equally lacklustre. France's banks managed to increase their collective net profits by just 2 per cent to FFr15.23bn in 1991, according to the Association Française des Banques a fall in real terms. The main reason was a steep increase in provisions of nearly 22 per cent to FFr38.4bn.

"Last year was pretty tough for the French banks," said Mr Sasha Serafimovski, European banking analyst for Morgan Stanley. "Their position is not nearly as bad as that of the British or the Americans, but life for them is getting tougher and tougher."

The outlook for 1992 is little better. The French economy ought to improve, provided there is a reduction in interest rates this autumn, which will not only alleviate the pressure on the banks but should also provide a sorely needed boost to demand for credit.

But the French banks still face fierce competition in some sectors of their domestic market, notably deposits, where the government's SICAV scheme has siphoned cash away from the banks.

The investment banks face continuing competition from the international concerns that are continuing to expand in France. Morgan Stanley of the US, Nomura of Japan and the UK's Kleinwort Benson have all recently announced plans to extend their banking or broking operations in Paris.

Meanwhile, the retail banks are haunted by the French post office's plans to start issuing cheques. The post office, helped by its huge network, could become a daunting competitor as the AFB has recognised by mounting a campaign against its plans.

Further, the banks seem set for yet another year of hefty provisions, given that there is no sign of a fall in the rate of French business failures, nor of a recovery in the property market to which some banks, notably Crédit Lyonnais, are heavily exposed. And, although the litany of international corporate horror stories seems to be abating, there will almost certainly be enough multinational traumas this year to add to their problems in France.

However, the French banks have made progress on some fronts, notably in cost control. Crédit Lyonnais, for instance, managed to offset its difficulties with bad debts by the impressive performance of its restructured and rationalised French retail network. Both BNP and Crédit Commercial de France (CCF), one of the leading private sector banks, managed to keep their cost increases in France beneath inflation.

"The French banks have done very well at controlling costs," said Ms Susan Sternglass, European banking analyst at Goldman Sachs. "They have also managed to avoid the dramas of the massive job losses in the UK and the US. The French have taken a more moderate approach by gradually shedding staff through early retirement and relocation programmes."

Such initiatives augur well for the future, given that, even after the French economy recovers, the level of competition in French banking seems set to get even more ferocious. Meanwhile, France's banks are still struggling to strike a balance between the parallel pressures of their old roles as state-controlled institutions and the commercial constraints of operating in international banking.

This dilemma is most acute for the state-controlled banks, notably BNP and Crédit Lyonnais. But the legacy of government ownership affects all the French banks. For instance, they are not allowed to charge their personal customers for cheques given that owning a cheque book is seen as a citizen's right in France.

The links between the state and the banking sector have lessened in recent years. BNP and Crédit Lyonnais still take large stakes in state-controlled companies which, or so most banking analysts suspect, they would not have done without the "encouragement" of the French government. This is not, however, entirely to their disadvantage. Crédit Lyonnais financed much of its controversial expansion by expanding its equity through such deals. Moreover both banks claim that their links with the government are not as strong as in the past.

Those links are likely to be even weaker in the future. The privatisation of Société Générale was seen as the beginning of the end of the era of state ownership. The socialist government has already identified the insurers as candidates for its partial privatisation policy. The banks may be next. Most observers suspect that sooner or later both BNP and Crédit Lyonnais will join Société Générale in the private sector.

In the meantime, the government's influence over BNP and Crédit Lyonnais is slowly being eroded by the commercial disciplines of modern banking.

"The reality of life is that the need to comply with international capital standards is much more important to a bank than what the state tells it to do," said Ms Sternglass. "The market is slowly taking over – even in France."

French banking performance

	Net banking income			Provisions			Net profits (FFrbn)		
	1990	1991	91/90 (%)	1990	1991	91/90 (%)	1990	1991	91/90 (%)
Banque Nationale de Paris	35.80	37.90	5.9	7.10	8.10	14.1	1.60	2.90	81.2
Crédit Lyonnais	40.83	46.33	13.5	6.49	9.60	47.9	3.71	3.16	-14.8
Société Générale	32.54	35.40	8.8	6.79	5.46	-19.6	2.68	3.37	25.7
Banque Indosuez	9.32	10.93	17.3	1.30	1.55	19.2	0.93	0.81	-12.9
Banque Paribas	8.90	10.50	18.0	1.98	2.00	1.0	0.63	-1.56	-347.6
Crédit Commercial de France	7.25	7.63	5.2	0.11	1.15	995.2	0.78	0.92	17.9

Source: Association Française des Banques

Profile: Crédit Lyonnais

Risk and Mr Haberer

"IN TEN years time, if the markets favour him, Haberer may be hailed as a genius and the rest of us will look like idiots," said one prominent Paris banker to the FT, this time last year. "But in the meantime, he gives me gooseflesh."

Less then a year later, gooseflesh looks like a rather mild reaction to the plight of Crédit Lyonnais, one of the biggest and by far the most ambitious of France's banks, and its chairman, Mr Jean-Yves Haberer. At the time, Crédit Lyonnais' main problem was Mr Giancarlo Parretti, the Italian businessman with whom it was locked in a legal fight over the future of MGM-Pathé, the stricken Hollywood movie studio.

The Parretti problem has since almost paled beside all the other traumas that have developed around Crédit Lyonnais. It won the legal battle over MGM, but now faces the gargantuan task of salvaging the studio.

It has also been hit by heavy losses on loans to the late Robert Maxwell; on La Cinq, the television channel which collapsed this spring; and VEV, the troubled French textile group. It is also the second largest European creditor of Olympia & York, the precarious Canadian property group, although its O&Y loans are secured.

Crédit Lyonnais totted up the cost of last year's bad debts in its 1991 results which were published last month. It was forced to make provisions of FFr9.6bn (£972m), thereby reducing net profits from FFr3.7bn in 1990 to FFr3.1bn in 1991.

Mr Haberer's many critics in France have hailed the 1991 figures as proof of the failure of his grandiose plan to turn Crédit Lyonnais into a "universal bank" – with a wide range of international banking interests and extensive industrial investments – along the lines of Deutsche Bank, in Germany.

Deutsche Bank, claim the critics, owes its structure to its roots in the post-war reconstruction of western Germany. By the time Crédit Lyonnais began its expansion towards the end of the 1980s, it was too late and too expensive to construct a universal bank.

The performance of Crédit Lyonnais' loan portfolio over the last year or so has seemed to justify the critics' concern. Whenever a new corporate horror story has unfolded, Crédit Lyonnais has been high up the list of creditors; although it should be noted that its provisions as a proportion of loans – roughly 1.6 per cent last year – are still low by international standards.

Other aspects of Mr Haberer's strategy have been more successful. The French retail banking network, the original base of the business, has fared well in an increasingly competitive market after stringent restructuring, as have the recent acquisitions in other countries, notably in Spain and Italy. Altus, the French banking subsidiary bought from the Thomson electronics group in 1989, produced an impressive profit last year, as did the US junk bond portfolio.

Jean-Yves Haberer

In spite of these successes, Mr Haberer's critics claim he has taken too many risks with one of the grand old names of French banking. Their hopes that he would be fired next month, when the Crédit Lyonnais chairmanship comes up for renewal, suffered a setback when Mr Pierre Bérégovoy, one of his staunchest supporters, was appointed prime minister.

But Mr Haberer may face another political hurdle after next year's general elections if Mr Jacques Chirac returns to power as the head of a conservative government. Mr Chirac has been prime minister before, and one of his first acts in the financial sector was to fire the head of the Paribas banking group – Mr Jean-Yves Haberer.

Alice Rawsthorn

Ian Rodger looks beneath the pall that lies over the Swiss banking community

Thun closure raises questions

IT HAS, in many respects, been a great year for the Swiss banking industry, with most of the leading universal and private banks scoring handsome profit increases.

But the decision by Moody's, in January, to remove its triple-A rating from the long-term bonds of Crédit Suisse, and, earlier this month, to do likewise to Swiss Bank Corporation, has cast a pall over the whole community.

One of Moody's main arguments was that the liberalisation of Swiss financial markets in recent years was putting the stability of the banks' earnings into question.

Certainly, liberalisation has already had a significant impact on banks at all levels, and there are indications of more shocks and radical changes to come.

The biggest shock last year was the forced closure of a regional bank, Spar und Leihkasse Thun, something no one ever expected to see in Switzerland. While the Thun bank was very small, with assets of SFr1.1bn (£411m), its failure revealed many problems in the Swiss banking system arising from liberalisation.

It undermined the assumption that one of the big universal banks would always be a rescuer of last resort in such cases. Second, it showed that traditional supervision procedures were no longer adequate in an era when even small banks were free to compete as aggressively as they liked in various financial markets. And it highlighted the need for consolidation in a sector where 185 banks had combined assets of only SFr86.1bn, roughly a third of those held by Union Bank of Switzerland alone.

It also suggested that Swiss banks, long accustomed to easy money, were ill prepared to cope with the tougher conditions imposed by the falling international popularity of the Swiss franc.

These problems have manifested themselves in different ways on different sectors. The big universal banks, for example, have seen their balances of traditional, low-cost savings deposits decline as customers headed for higher yielding money market instruments.

> Private banks have had to sharpen their investment skills

Together with the private banks and the bigger cantonal banks, they have also suffered from squeezed margins on securities trading since the elimination of fixed commissions at the beginning of last year.

The private banks have had to sharpen their investment management skills, realising that their Swiss names, courtesy, location and currency were no longer adequate to attract and hold deposits from the world's rich individuals. Better service comes at a cost, and most banks have been trimming staff. Last year, two famous old Geneva names, Darier and Hentsch, felt the need to merge, and others are likely to follow.

As costs rise, private sector banks have pointed angry fingers at the cantonal banks, whose public sector owners would rather endure low returns than face angry voters. But cantonal and regional banks have been losing market share steadily to the universal banks, especially in their core business of mortgage lending, and are fighting for survival.

Mr Robert Studer, chief executive of UBS, startled a Zurich audience in March by predicting that 100 of the country's 630 banks could disappear in the next 10 years.

Two weeks ago, Mr Hans Dieter Vontobel, chief executive of Bank J.Vontobel, a leading Zurich-based investment bank, retorted sharply, saying that power in Switzerland's financial markets was already too concentrated in the hands of the big three.

Liberalisation should not be pursued so vigorously as to reduce still further the degree of competition, Mr Vontobel argued. But he agreed that rationalisation in the next few years would be substantial, possibly eliminating 20,000 jobs.

> Service comes at a cost, and most banks have been trimming staff

Mr Studer thought that one of the big three might even decide to give up retail banking in the foreseeable future, because profits were so thin in this area.

All this, plus the uncertainty over Switzerland's future relations with the European Community, would seem to provide more than enough reasons to question the stability of Swiss banks in the next few years.

The big banks argue that they are almost certain to emerge stronger from the process, and this is probably true. But they also admit there could be a long period during which many dying institutions lunge desperately at business, keeping margins very low for everyone.

Thus, it is just as well that they have finally got their international business in order. While many of the world's banks are still licking their wounds from their misadventures in global banking over the past few years, the big three Swiss banks have sparkled.

Aided by their strong balance sheets, and no doubt also by the retreat of troubled Japanese and US banks from the key international markets, the big three have found profitable pickings in international lending, foreign exchange dealings and fund management.

Crédit Suisse said 30 per cent of its net income came from foreign operations; but Bank Julius Baer, in a recent study, argues that the figure would be more like 66 per cent if income from the group's Luxembourg based mutual funds, which are managed from Zurich, were included. UBS said the foreign contribution to its earnings last year tripled to 25 per cent.

SBC said that its association with the derivative specialists, The O'Conner Partnerships in Chicago, in which it invested about SFr90m a little over a year ago, yielded net income of SFr107m last year, but overall foreign earnings were depressed by large provisions on bad debts.

Profile: **Deutsche Bank**, whose 'feel good' factor has been under strain

Still towering above the rest

THE TWIN towers of the Deutsche Bank headquarters are no longer the tallest buildings in Frankfurt. They are eclipsed by the recently built Messeturm nearby. But metaphorically speaking, the bank still towers over the German financial and industrial establishment.

This is despite the fact that Deutsche Bank's profits grew more slowly than those of Germany's other big banks last year, and that analysts were disappointed with an 18 per cent rise in total operating expenses. Trading results alone helped the bank report total operating profits up 17 per cent to DM5.97bn (£2bn) - strip out these, and underlying profits only rose by 6 per cent.

Other banks – notably Commerzbank, which increased its non-trading profits by 30 per cent last year – may have achieved better growth rates. But this hides the fact that Deutsche and its subsidiaries managed to transfer to their reserves more than the total transfers made by Commerzbank, Dresdner Bank and the two big Bavarian banks (Vereinsbank and Hypobank) altogether. The figure exceeded DM1bn, compared with the total sum of DM800m put away by its four nearest competitors.

These transfers feed directly through to a bank's ability to take on board new lending, meaning that the Deutsche Bank, unlike its smaller competitors, has no current need to hold an expensive rights issue. It beats the other big German banks hands down in terms of capital strength, too, with around 6 per cent of Tier 1 equity capital and 11 per cent capital altogether. Of the big three banks, it was the only one to increase its dividend for last year.

> 'An animal on its own . . . with immense financial strength'

Add in its network of shareholdings in Germany's largest companies (including a 28 per cent stake in Daimler Benz, Germany's biggest industrial group, and 10 per cent of Allianz, Europe's largest financial services institution) and a market capitalisation of in excess of DM30bn. It is, in the words of Mr Keith Brown, at Morgan Stanley, in London "an animal all on its own, a major industrial holding company, with immense financial strength."

It is also, as Mr Brown puts it, "the ultimate feel-good bank." There is wide respect for the quality of the bank's management among international investors "who feel good whatever the bank does," says Mr Brown, even if this is at the expense of reported profits, as in 1990 when profits fell as the bank made aggressive provisions against its exposure to the former Soviet Union. The following year the competitors were obliged to follow suit.

Mr Brown notes that, on a two-year view, net profits have shown only modest growth, and earnings per share have actually declined. But investors appear unconcerned and the shares still sit on a premium rating, yielding 60 per cent of the market yield and sitting on an earnings multiple of 20 per cent more than the market. This makes the shares expensive by comparison with those of the other big banks, but investors appear willing to pay the price of greater quality earnings.

It is true that the bank did not induce its usual "feel-good" response when it reported its figures for 1991 at the beginning of April: close examination of the results revealed a sharp and unexpected increase in costs, predominantly in connection with the bank's aggressive expansion in the eastern part of Germany. The disappointment felt by investors was not keen enough to make a dent in the bank's rating.

Like the other German banks, Deutsche seems set to benefit from another year of strong loan demand at home, mainly tied to recovery and investment in the east of the country.

Overseas markets already account for a quarter of Deutsche's total business - a share which is likely to show as the bank takes advantage of the weakness of its American and Japanese rivals. North America, watch out - at a press conference in New York this month, Deutsche declared its intention to expand aggressively in the US capital markets and private banking.

David Waller

Managing bad debts

'A job to make anyone mature'

TIMES MAY be hard for British companies, but one banker, Mr Bernard Bradford, deputy head of advances at National Westminster, the second largest UK bank, has never had so much work to do.

"This is my third recession and it is the worst in living memory. I don't plan to see a fourth recession myself," says Mr Bradford, at the offices in the King's Cross district of London where he and a staff of around 200, handle cases of customers who have become insolvent.

Mr Bradford will not give any numbers, but he concedes that there has been a massive increase in the last three years in the number of cases in his charge. Last year, NatWest chalked up £1.4bn of bad debts on its commercial and personal lending in the UK, up from £655m in 1990.

Tottering corporate giants are handled by a small team in the 32-storey NatWest Tower headquarters in the City of London, headed till last month by Mr Derek Plummer. Other cases go on to be handled by Mr Bradford and the teams under him at King's Cross and in other parts of the country.

"My portfolio is not 100 per cent provided for," he explains, "because we have quite a lot of cases in which there is security against the lending."

There are usually two things which need to be done immediately: first, find out more about the company concerned and how it got into trouble and secondly build up a better relationship between bank and manager.

"The chances are that relations between a branch manager and the company are not at their best by the time a company comes our way, so we do try to create a new relationship."

Creating a good working relationship is very important. Mr Bradford's staff are told that they must be sympathetic and humane at all times, and that they must never forget that they are dealing with people in trouble. Some staff handling troubled companies are still in their twenties, but: "A spell working with us makes anyone mature fast."

Credit-watch staff must be trained to cope with all sorts of emotional situations, ranging from aggression and abuse to heart-rending tears. There is emphasis on finding innovative solutions. NatWest does not want staff to emerge from credit-watch work too scared by what they have seen ever to lend another penny.

On the other hand, it does not strive to keep companies alive which are not truly viable. "We do not intend to defer the collapse of a company if it is inevitable," says Mr Bradford.

The success rate is fairly high. Only about one third of the companies in trouble end up in liquidation. Identifying the ones with a reasonable prospect of recovery depends on understanding why they have gone wrong.

"You tend to find that companies about to get into difficulties have little understanding of how serious their position is," says Mr Plummer.

"They always believe that, with just a little more help with their cash flow, they will get through their troubles."

Signs of impending trouble which may trigger a branch manager or regional director to take action and put a company on credit watch include: pressure on a company's overdraft; a sudden fall in its turnover; a flood of status enquiries about the customer; and repeated customer requests to stop payment on cheques. Any of these will get a company's account watched closely from an early stage in its troubles.

The average company will have debts of around £500,000. Finding out just how it came to be unable to meet its commitments is then NatWest's second main task.

When the accountants go in to a company in trouble, they almost always find that its records are in a mess. "It is a pretty harsh view to take, but at the root of every company's troubles is management failure," says Mr Bradford.

At this point the bank assesses its options, ranging from immediate closure to a debt into equity conversion. A support and monitoring operation, which may last for up to two or three years, will get under way in hopeful cases.

"We think very carefully about what the bank is doing. We don't want to increase its exposure, but it is in our mutual interest for our customers' businesses to prosper," says Mr Bradford.

Is the UK recession, and the flood of insolvent companies created by it, ending? "There have been some straws in the wind in the last two months. The receivership figures for the first quarter of the year were down. Perhaps we are at last starting to turn the corner."

David Barchard

Richard Lapper on the banks' increasing sale of insurance

The time of their life

BANKS FROM Belgium and Switzerland are the latest European entrants into the booming field of *bancassurance* or *Allfinanz* – the French and German terms which describe the way banks are increasingly selling insurance to their customers.

Belgium's Banque Bruxelles Lambert, the country's second largest bank, which has been courted by insurers such as Royal Belge and Internationale Nederlanden Groep, announced in March that it would establish a new subsidiary to sell motor and household insurance; while, in January, Swiss Bank Corporation (SBC) unveiled a joint venture with Zurich Insurance, in which each company will sell products and services of the other through their existing branches and offices.

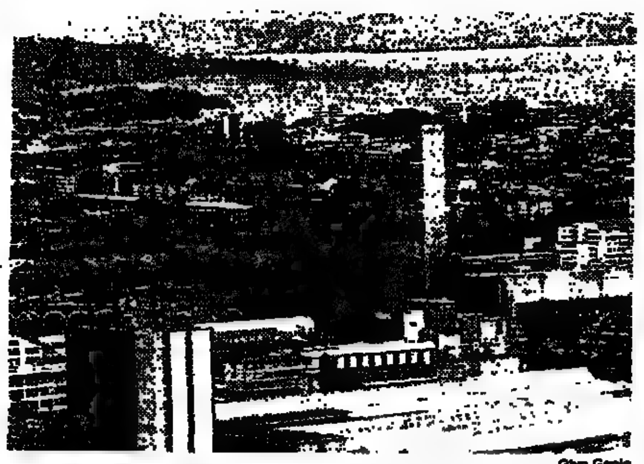
The launches are the latest of a string of ventures in which banks and insurers are taking advantage of the deregulation of the continent's financial services industry to tread on each other's turf.

The pace of rationalisation has been remarkable in some countries, including the Netherlands. Nationale Nederlanden and NMB Postbank created one of Europe's biggest bank insurers following their merger early in 1991.

The ventures have not been entirely trouble-free, but bankers in the US and Japan – where regulations preventing link-ups are still very much in place – are casting envious glances in the direction of Europe. Increasingly, commentators are recognising that, from a banking point of view, the logic of bancassurance is inexorable.

Allfinanz, or the "integration of banking and insurance at the customer level", is one of "the most striking developments to have hit the financial industry worldwide in modern times," said a recent survey by the Lafferty Group, the Dublin-based research group (*The Allfinanz Revolution - winning strategies for the 1990s*).

Lafferty believes that European banks are now positioned to take between 20 per cent and 40 per cent of the market.



Glyn Genin

Zurich, where one of this year's joint ventures was unveiled

"There can no longer be debate about whether banks have a role to play in the provision of life assurance," Lafferty concluded decisively. "Evidence from around the world points to the fact that banks are now not merely marginal participants in the sector, but are becoming increasingly important in both the manufacture and distribution of life assurance."

Salomon Brothers, the securities house, agrees. Citing the examples of Crédit Agricole, TSB, Deutsche Bank, Rabobank and Monte dei Paschi, Salomon says: "The big winners in the European distribution sweepstakes are a limited number of major banks that have found the right management formula for success."

In the UK, National Westminster and Abbey National opted to form bank insurance subsidiaries last year. NatWest, which had developed links with a number of companies as an independent intermediary, has formed a new joint venture with Clerical Medical, in which it owns a 92.5 per cent stake. Abbey National, which had linked up in a joint venture with Friends Provident, took over Scottish Mutual.

Salomon says in a recent note, *European Insurance Distribution*, that a standard formula for success is "a captive insurer staffed by recruited professionals [which] provides product, training and support while the bank network exploits the active or arm customer portion of its customer population."

Underpinning the rationale is increasing competition within the financial services sector. European banks have seen operating margins get much tighter over the last 10 years. In particular, as interest-bearing current accounts have become more common, banks have faced a sharp increase in the cost of their deposits.

Banks have also had to respond to the impact of the gradual ageing of Europe's population, which has seen a greater proportion of the continent's savings invested in the longer-term investments in which life insurers specialise, at the expense of bank accounts.

Competitive pressures – in part, stemming from deregulation – have also pegged back the rate at which banks can make profits from their core lending activities, forcing banks to seek ways to increase productivity by making greater use of their networks of bank branches.

Banks have also realised, however, that their branch networks represented an opportunity. Early examples of bank assurance showed that life assurance salesforces could achieve many more sales by working with a bank's captive customer base. While insurers convert on average one out of 15 sales prospects – what the industry calls "warm leads" – into a policy, banks are now converting into policies as many as five out of 20 prospects.

The successful experience of bank-owned life assurance subsidiaries – such as Lifetime, the Bank of Ireland subsidiary, which converts one out of two referrals into a policy, and Deutsche Leben, the subsidiary of Deutsche Bank, which claims a one-in-four conversion rate – have underlined the value of the bank customer base.

"Banks have found that branch-based customers represent an extraordinary asset – of warm prospects for life insurance products," says Lafferty. "Life insurers, on the other hand, have been forced to the shocking realisation that their policyholders have more of a relationship with the intermediary than with the company whose products they are buying."

The development poses some awkward dilemmas for insurers, While banks have proved to be adept at selling simpler insurance products, in France and Germany – where insurers Union des Assurances de Paris and Allianz have entered into joint-venture deals with BNP and Dresdner Bank – insurance agents have been less successful at selling motor loans and mortgages.

Increasingly aware of the value of their distribution networks, banks are unlikely to cede control of joint ventures established with insurers. Indeed, talks between BAT Industries – which has two insurance subsidiaries, Eagle Star and Allied Dunbar – broke down over this issue.

Spain's largest insurer, Mapfre, has addressed the problem by setting up its bank from scratch and offering banking services from its hundreds of small insurance agency offices.

But few European insurers have such a dense network of branches, and ultimately acquisition may their only option – though, on cost grounds, that could rule out all but the continent's biggest insurers.

Andrew Freeman explains why global custody is in vogue

Fees down, rewards still high

IN RECENT years, international banks have become increasingly enamoured of a business they long regarded as a necessary evil.

Global custody, a cross-border securities settlement and administration product, was traditionally seen as an extension of the back-office functions banks offered to their investment clients. Now, with balance sheets groaning under the pressure of provisions against loans gone bad, custody is in vogue.

The reason is simple enough. Custody is a fee-earning business with a relatively stable client base. The banks' income is derived partly from an annual charge based on the size of the assets under custody, but the bulk of custody revenues is earned from customers' activity. Custody requires minimal capital, although it does require continuous investment in technology.

Small wonder, then, that the market for custodial services has grown in parallel with cross-border activity by investors. A recent survey by InterSec, a US consultancy, suggested that the world's largest pension funds will have \$780bn (£437bn) of foreign assets by 1995, rising to \$2,000bn by 2003.

If that extrapolation is correct, the pool of foreign assets will have grown by a hundredfold in a mere 25 years. As funds have sought investment opportunities overseas, they have turned to their custodians to provide essential support networks.

There is another reason for custody's new-found popularity among banks. After the stockmarket crash of October 1987, senior bankers became concerned for the first time about the risks of systemic failure of the world's settlement systems. They realised that the smooth flow of financial and securities transactions is crucial to the security of their business.

Leading think-tanks, notably the Group of Thirty, studied clearing and settlement practices and discovered that, in many markets, they were woefully inadequate. The G30's recommendations and timetable for improved settlement efficiency were widely adopted after its influential report three years ago.

Marshall Carter: global custody has evolved

Meanwhile, custody has become much more competitive in the last five years. Prices have been squeezed to the point where custodians now describe the basic product as a commodity.

Fees have come down sharply as the bigger providers have used their muscle to put pressure on vulnerable competitors. Clients, too, have become much more aggressive in demanding a better service. Custody has not turned out to be the dream product some bankers predicted.

> As balance sheets groan under the pressure of loans gone bad, custody is a fee-earning business with a relatively stable client base

However, the rewards from activities associated with custody can still be huge. In particular, the commercial banks have always made good returns from handling the foreign exchange transactions required whenever a fund buys or sells foreign assets.

But there are also big returns available to the banks which use their clients' custodial assets for stock lending. In return, the custodian is allowed to lend stock and keep a share of the income. That might sound unexciting, but returns on lending in some of the smaller securities markets can be as high as three percentage points. Some large and sophisticated customers have sufficient muscle, in the shape of their assets, to demand custody virtually for free.

That is the type of arrangement thought to underlie the appointment by the two huge Californian state employees retirement funds of State Street. State Street, which has vast assets under administration, won the business away from the rival Boston Company with a bid significantly lower than any competitor managed.

Mr Marshall Carter, president of State Street, told a recent conference that custody has evolved from the days when it offered relatively simple services like safekeeping, settlement, corporate actions, income collection and tax reclamations.

"Today, services must include decision support such as consolidated reporting, performance measurement, risk analysis and analytics. We must be able to demonstrate to our customers that we can help them reduce risk," he said.

At the same time, it is arguable that the banks have not been particularly successful at developing the custody product. Because it essentially involves the processing of information flows, custody has been a natural beneficiary of the revolution in computer technology.

In practice, banks have struggled to keep pace with that revolution and have often been saddled with expensive systems which are out of date soon after they are installed.

It is possible that specialist IT companies will seek to move into the commodity end of the custody business and drive prices even lower. Banks which rushed to swell the ranks of custodians in the late 1980s could be forced into embarrassing retreats.

That risk is increased by the fact that some of the world's largest institutions are not yet active competitors in custody. The Japanese banks, for example, have been notably slow to look beyond their domestic market. Were they to do so, their assets and their ability to learn from others' mistakes would make them formidable competitors.

In addition, the custodian banks face a dilemma over the development of three international institutions which, ironically, they own: Swift, which runs the global interbank message system, and the two international clearing houses, Euroclear and Cedel. Each of them has the business framework and expertise to become a key player in global custody.

It seems likely that later this year Swift will allow fund managers to become users of its system, opening up the possibility of eventual partial disintermediation of the custodian banks.

COURIER AND EXPRESS SERVICES

With the emphasis on greater profitability, the courier and express industry is now undergoing a rationalisation after a decade of phenomenal expansion. Increasing demand for more sophisticated delivery services, a need for greater security and environmental concerns are also straining the cost base. **Phillip Hastings** reports

Packaged for more profits

A DECADE of expansion at almost any price for the courier and express industry during the 1980s has now been firmly replaced by a strong focus on bottom-line performance.

The harsh reality of increasing losses is forcing many companies – international and domestic – to scale back ambitious network development plans and pursuit of ever-larger traffic volumes to achieve better profitability.

Increasing demand from customers for higher quality and more sophisticated delivery services is putting an even greater strain on the cost base of many courier and express companies. Issues such as security and environmental concerns are also having an impact on costs and profitability.

Meanwhile, plans to liberalise the UK postal industry and that of the European Community as a whole could substantially change market conditions for couriers and other companies handing express parcels and document traffic.

The best example of the rationalisation of the international express industry was the decision, announced earlier this year, of US parcels carrier Federal Express to pull out of all European domestic and regional activities.

Reasons for the decision were not hard to find. In the quarter to the end of February this year, Federal Express incurred international operating losses of US$387m ($126m excluding one-off European restructuring charges) on revenues of $595m. That compared with a loss of $71m on international revenues of $672m for the same quarter of the previous fiscal year.

Few express industry observers expect the Federal Express pull-out to mark the end of rationalisation on the global scene. Mr John Mullen, chief executive of GD Express Worldwide, the new joint venture organisation set up this year by TNT Express Worldwide and five postal authorities, *believes there is only* room for two or three global integrators at the most. "We are now getting nearer to that situation but there is probably still some more rationalisation to come," he said.

Much of the express industry's rationalisation has so far involved moves to share expensive aircraft capacity. However, leading express industry executives believe that, in Europe at least, the next round of changes could well focus on the road transport side of the business.

Meanwhile, TNT Express Worldwide claims it is already seeing significant cost savings as a result of its joint venture with GD Net, the express organisation set up by the post offices of Sweden, the Netherlands, France, Germany and Canada. For a start, the additional traffic is helping to fill up spare capacity on its 20-strong fleet of British Aerospace 146-QT jet freighters.

TNT says overall traffic volumes from the five post offices belonging to GD Net are roughly equivalent to the European volumes of its former courier organisation TNT Skypak. "On some routes, we will without doubt be putting on extra aircraft," said a TNT spokesman. Still to be decided is whether the UK Post Office will join the TNT/GD Net organisation or seek alternative ways of developing its international express delivery service.

A decision had been expected by now, but Mr Peter Howarth, managing director of the UK Post Office parcels organisation Parcelforce, said a number of options were still under consideration, including the GD Express Worldwide venture.

He said Parcelforce may opt to work with only one partner or with several different ones. And they could be other postal authorities or private sector companies. A final decision is expected by July.

The emphasis on reducing costs and improving profitability now evident in the international express industry, is just as apparent in the UK domestic sector.

Mr Colin Millbanks, chief executive of Mayne Nickless group carrier Parcelline, claims his company has deliberately not chased volume at any price and as a result has remained in profit since November 1990.

"Costs have been held at the levels of 12 months ago, which in real terms means a reduction. This will have a dramatic effect on our bottom-line performance for the financial year ending June 1992," he said.

Another trend in UK domestic and international *express sectors is that* customers are demanding more sophisticated services. On the international front, this has led to big global integrators such as TNT, Federal Express, DHL and United Parcel Service establishing separate divisions or management teams to concentrate on developing wide-ranging logistics services for multinational organisations.

Other express operators are following similar paths. US-based Emery Worldwide, for instance, has just *announced that it will expand* its Warehouse Inventory System Express (WISE) depot programme in North America to provide customers with three levels of service for time-critical shipments, including a two-hour turnaround service for immediate delivery needs. The company is also looking to expand its WISE operations in Europe.

The pressure on domestic express companies to expand the scope of their services is highlighted by Securiguard *group parcels carrier City* Link. Mr David Kennard, managing director, says that as many companies are forced to rethink their operating hours – starting earlier or working round-the-clock – demand is growing for faster and more flexible delivery systems.

He also says that in an increasingly competitive business climate, companies are attaching far greater value to the supply of information. "They want more management information from their express carriers to enable them, for example, to analyse expenditure by departments and service levels used," he says

These sort of requirements, at the domestic and international levels, mean *courier and express companies* are continually having to invest in new information technology. Increasingly, this means using EDI (electronic data interchange).

However, this creates two problems for the courier and express industry, claim operators. First, many customers are unsure exactly what they really want in terms of information technology. Second, the reluctance of customers to pay *for it means the main cost* burden falls on the express operators.

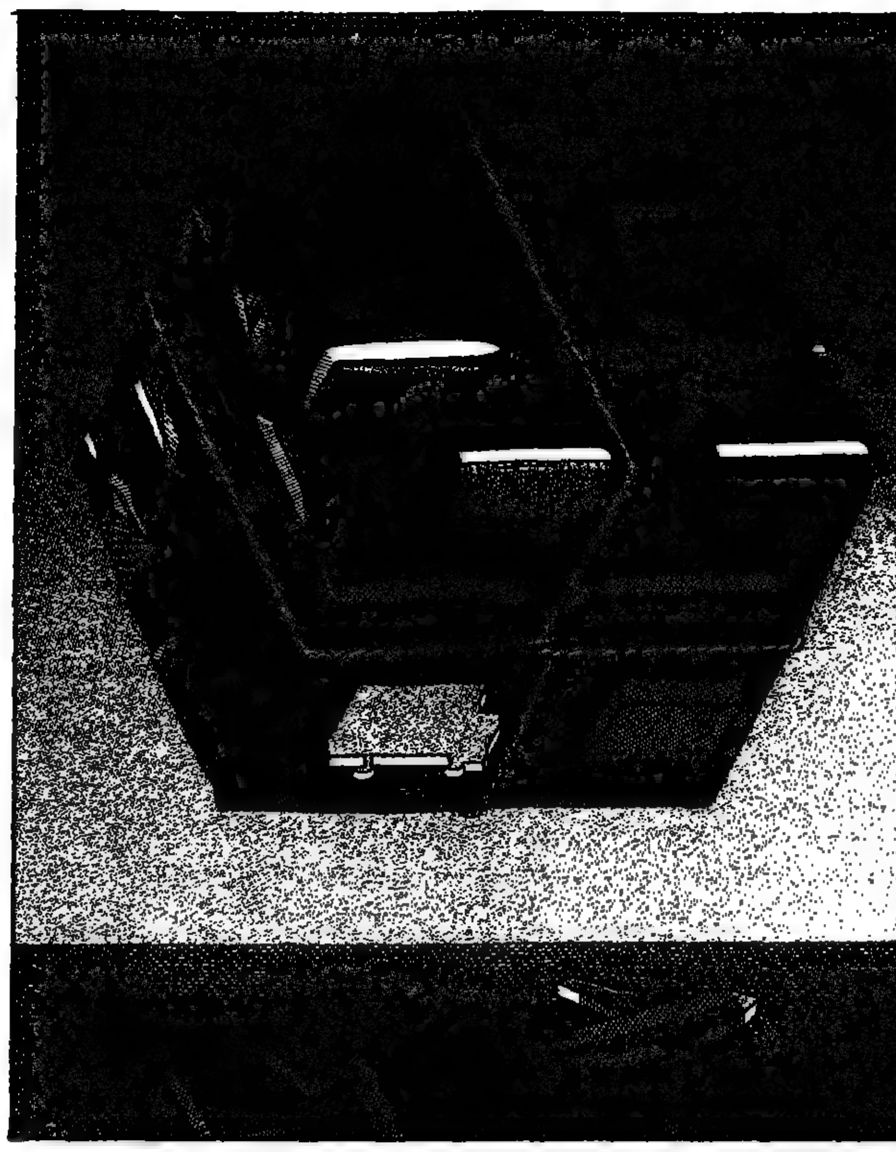
Another problem is the continuing uncertainty over moves to establish new rules for mail and other postal service *operations in the* European Community.

The European Commission last week published its long-awaited Green Paper, which puts considerable emphasis on the need for community-wide standards for basic postal services. But the Commission has decided that some EC postal sectors should still be reserved for the postal authorities and suggests gradual liberalisation of cross-border services.

Meanwhile, the UK Post Office is planning to offer discounts to private companies who want to consolidate and trunk their domestic mail. UK Post Office chairman Sir Bryan Nicholson indicated earlier this year that a general framework for such arrangements was expected to be in place by early summer.

Initially, the Post Office is likely to offer discounts to large users who trunk their own mail direct to the postal centre handling the final delivery of that traffic. But such discounts may subsequently also be offered to third parties acting as consolidators for the collection, sorting and trunking of mail.

Under the general Post Office monopoly on mail services, private carriers have to charge a minimum of £1 per item for their deliveries. Mr *Robert Andrews, a director of* parcels carrier Securicor Omega Express, told an industry conference earlier this year that research suggested a reduction of the monopoly limit to 75p or 50p was "unlikely to cause sufficient shift of first class letter traffic from Royal Mail to tempt current express service companies to put the profitability of their core business at risk".



IN THIS SURVEY

Sir Bryan Nicholson: welcomes deregulation

Illustration: Robin MacFarlan

Logistics are still a problem across European borders

Range of services widens

INCREASING demand from multinational companies for fast, high-quality international delivery performance is creating important new business opportunities for the providers of express services.

Manufacturers using JIT (Just-In-Time) logistics systems, for example, like the ability of leading express operators to control the total door-to-door movement of goods. And organisations developing centralised warehousing systems in Europe want fast delivery services to ensure they can serve the whole market efficiently.

"There is a major move in Europe to centralise stocks and distribute parts from one, strategically-located site," confirms Mr David Burton, general manager of intra-European express delivery company XP Express Parcel Systems.

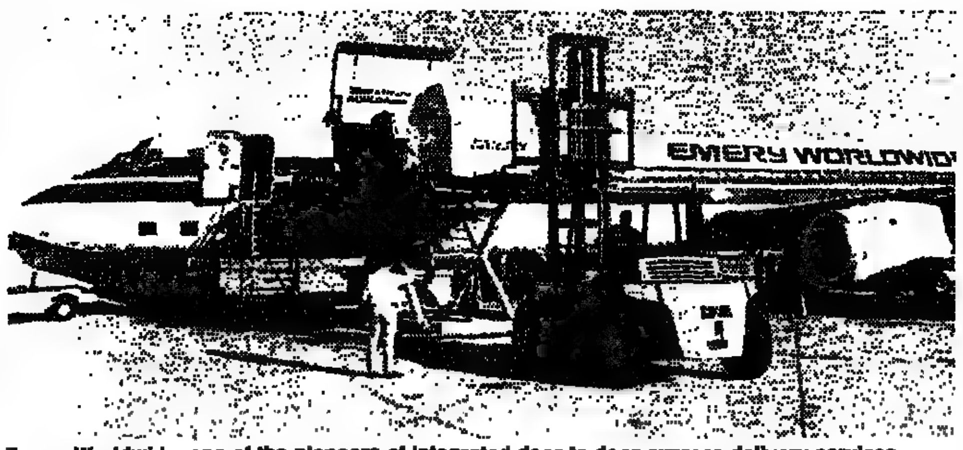
"What is now wanted is a means of making this transition, with all the apparent cost savings which can result, without any decline in the level of service a company can provide to its customers."

Responding to those changes, express companies which initially made their mark on the international distribution scene by offering a set menu of fast, door-to-door delivery services, are now refocusing much of their development effort on the provision of custom-designed services geared to meet the often complex requirements of modern logistics operations.

Among the big four integrators, for example, TNT and Federal Express have established separate logistics divisions; United Parcel Service has set up logistics teams all over the world; and DHL has this month announced the formation of an "Interface" team to work alongside leading customers.

Meanwhile, Emery Worldwide, one of the pioneers of international integrated door-to-door express delivery services, is looking to transplant its US Warehouse Inventory System Express (WISE) into Europe. And airfreight forwarder Air Express International (AEI) is improving its intra-European express delivery system Pandalink to meet customers' expanded logistics requirements.

The reasons for that sort of express industry development become clear as Mr Tony Keating, head of European logistics for UPS, explains why that company has established its logistics teams.



Emery Worldwide: one of the pioneers of integrated door-to-door express delivery services

"More than 35 per cent of the total potential package market UPS is interested in is in the hands of the multinationals. Having established that, we decided we had to do more about meeting the requirements of those customers," he said.

As an example of the sort of operation which has evolved, Mr Keating points to a contract UPS has with Fujitsu subsidiary Poqet. Basically, the latter brings computers from Japan and peripherals from the US into the Netherlands for distribution throughout Europe.

"We handle the computers from Japan using our Japanese joint venture company UniStar

Fast delivery services are needed from centralised warehouses

and the peripherals from the US using our expedited service. Once the products arrive in the Netherlands, we move them under bond to a bonded facility at Tilburg in the south of the country," says Mr Keating.

"European customers transmit their orders electronically to the company in the US and they then transmit the information back to us in the Netherlands by 0800 hours. We then pick and pack, undertake certain simple quality control procedures, carry out the customs export procedures and then distribute the products throughout Europe by air and ground service."

TNT and Federal Express have adopted a slightly different approach to meeting the logistics demands of multinational companies. The former, for example, runs TNT Contract Logistics as a separate operation.

"We may use other parts of the TNT organisation such as air express, road express or courier services but we are not asset-driven. By that I mean we are not trying to fill up TNT's aircraft or trucks – if that happens, it is purely coincidental," comments Mr Brian Bolam, managing director of TNT Contract Logistics Europe.

"We basically start with a blank sheet of paper for the design of each contract and select what are the best options for the customer. And every customer is different. You cannot make any assumptions. You have to examine everything in detail."

Federal Express, too, has established a separate division – Federal Express Business Logistics. Included in that development has been the establishment of "Partsbank" international distribution centres in the UK, continental Europe and the US. Basically, Partsbank customers buy on a "pay-as-you-use" basis from a menu of services which includes collection, storage, stock control, customs, forwarding and airfreight, plus delivery.

Federal Express Business Logistics is also developing dedicated logistics operations. Recently, for example, the company announced the formation of a "global alliance" with fashion and furnishings group Laura Ashley. Included in that operation will be the sourcing of goods from all over the world, supply of products to stores and home delivery.

Latest logistics-related development from DHL involves the launch this month of a programme called Interface. Mr David Stewart, general manager key accounts for DHL International (UK), describes Interface as "a concept we have developed to encourage dialogue and debate with our existing and potential customers on a number of levels".

Giving examples of that last point, he cites Interface Arena which "offers a means to exchange views and ideas among industry peers"; Interface Team which "guides individual clients through the project management process"; and Interface Desk which "gives selected client sites an enhanced level of day-to-day customer service".

Emery Worldwide launched its WISE operations in the US some five years ago and also now has a WISE-type set-up in Amsterdam specifically to service the Dutch market. The wider ranging general intra-European operation under consideration may be based in Brussels.

"WISE depots provide customised inventory management and expedited delivery programmes for high-value or time-sensitive goods," explains Mr Roger W Curry, Emery's president and chief executive officer.

But express industry executives concede that they still have a lot of work to do to fully provide the sort of distribution systems many of their customers are looking for. "Euro-logistics is something we are going to have to work at. Anyone who says it is already here is probably guilty of believing their own press," commented Mr Robert Kelly, marketing director for Federal Express Business Logistics.

"Companies seeking to operate logistics across European national borders still face real obstacles – for example, local laws and regulations, language, culture, customs and practise. They are all very important issues which will continue to have enormous influence on how a company operates."

Phillip Hastings

EC post offices may soon be facing more competition

Monopoly likely to end soon

MAIL services around the world, once the monopoly of national post offices, are set to be opened to more competition.

The hugely profitable UK Post Office is awaiting increased deregulation of the Royal Mail while abroad a group of state-controlled post offices have joined forces with private Australian express operator TNT.

Meanwhile, a long-awaited EC Green Paper on the future of the community postal services, which has taken almost two years to compile, has recommended gradual liberalisation of cross-border and direct mail services.

This is a significant softening of tone compared with earlier drafts which recommended the removal of mail services from post office monopolies.

However, five state-owned post offices – three of them from member states – went ahead with liberalisation of some services before the Green Paper was published.

The administrations of Germany, the Netherlands, France, Sweden and Canada formed a new group, GD Net, and embarked on a joint venture with a subsidiary of TNT – TNT Express Worldwide – to handle their international express traffic.

GD Net has taken a 50 per cent stake in the venture with the other half owned by TNT. The new company is autonomous and managed independently of both shareholders. It is also structured to allow other postal administrations to join.

It is a marriage of the utmost convenience which gives the post offices the opportunity to compete equally in an international express market worth about $2.5bn.

TNT, who had been suffering in Europe from excessive competition, now have guaranteed volumes within a high-fixed cost infrastructure. In addition, they have benefited from a substantial cash injection into the venture by the post offices.

Mr John Mullen, chief executive of TNT Worldwide Express, said: "The current level of losses in the industry were unsustainable. It was a worldwide issue; we needed volume for fixed-cost structure and we needed partners to develop a strategy – it had to be someone who could bring something to the table.


In a joint venture, TNT Express Worldwide now handles international traffic for five countries

"The post offices felt they desperately needed an integrated worldwide structure to give them what no post office could have – a full end-to-end chain.

"Ninety per cent of our customer base is corporate while 80 per cent of the post offices' business comes from over the counter – the small-users market. If you put the two together there is a lot of potential.

"Some post offices have reserved their position while others said they don't intend joining. At the moment we are involved in discussions with the UK post office."

Thousands of words have already been written on what

The UK Post Office is awaiting deregulation of Royal Mail

the EC Green Paper might contain and it had been the source of intense wrangling in Brussels between Sir Leon Brittan's competition directorate and the post and telecommunications directorate.

Sir Leon had spoken of his commitment to full liberalisation of the international and express postal services while the telecommunications directorate took an entirely different view – giving support to arguments by post offices against wholesale liberalisation.

The post offices feared that the broad reform which stripped them of their monopoly rights meant they could not afford to maintain universal services.

The Green Paper does reiterate the right of each member state to apply for "a more restrictive solution" under the EC treaty in the interest of preserving a universal mail service.

Sir Leon, launching the Green Paper last week, said he would not rule out the use of special Commission powers to break open national monopolies without approval of member states.

He stressed that the Commission would move quickly to turn its discussion document into legislation.

Mr Colin Mitchell, chairman of the UK-based Mail Express Services Users' Association, said private operators had looked to the Green Paper for a level playing field between post offices and non-monopoly suppliers in competitive areas.

While the rest of Europe digests the implications of the Green Paper the UK Post Office, widely regarded as the most efficient and the best in Europe, is flexing its muscles for increased deregulation within the Royal Mail which will remove its monopoly for letters costing under £1.

Research suggests that opening the postal service to competition would create a £500m market for letter services.

Post Office chairman Sir Bryan Nicholson said he would welcome what he describes as sensible competition and de-regulation and believes the corporation is in a strong position to compete successfully within the new market place.

Certainly, the Post Office itself is in good shape. During the past 10 years it has contributed more than £700m to central government financing.

It is also true that no private operator could hope to match the sheer scale of an organisation which handles around 60m letters a day.

The Post Office is also no stranger to handling competition – Parcelforce and Royal Mail International compete against private operators for business.

However, the situation may not be so cut and dried.

Mirroring some European fears about opening up monopolies to increased competition Mr Alan Tuffin, chairman of the Union of Communications Workers, has warned that deregulation could mean the end to the universal service with private operators taking the most profitable parts of the letters business.

Mr Tuffin said: "When this happens we will steadily fall into loss-making decline which I believe will lead to cuts in services."

The government has always been adamant that the universal service would be retained and Sir Bryan said the Royal Mail would continue to give what he describes as a top-class universal service to customers.

He dismissed the ideal of a free-for-all which would disadvantage rural and outer urban areas.

"We have a national mandate and it is clearly against the customers' interest – competition mustn't undermine that."

Looking to the future, Sir Bryan believes the industry will move towards more partnerships. He is negotiating with GD Net and said he was "looking at what is best for us and keeping my options open".

Janina Walker

The express market in the UK has long been oversubscribed

Carriers struggle for profits

FORMAL withdrawal of the US parcels carrier Federal Express from the UK domestic market provides further evidence of the continuation of fierce competition in the sector.

According to management consultants Rickard Johnson, who have been involved in courier and express parcel services for a number of years, combined figures for the 10 largest carriers in the UK actually show a loss.

"The economics of delivery services are highly volume-dependent. Thus, many operators have focused on volume growth as a way of reducing unit costs – yet they remain unprofitable," says Mr Andrew Johnson, a director of Rickard Johnson.

However, while many of the leading carriers are struggling to achieve profitability in the UK Mr Johnson points out that some of the smaller players are still reporting attractive levels of profitability.

"Our research shows that many of the major express operators dissipate their economies of scale in delivery in other areas while some smaller operators achieve economies without the scale," he adds.

Similar observations about the viability of smaller express companies are made by senior executives from the UK's largest parcels carrier, the Royal Mail's Parcelforce, which claims to handle more than 30 per cent of domestic parcels traffic.

Mr Peter Child, Parcelforce marketing director, observes: "Small carriers – and by that I mean companies handling less than 1 per cent of the market – now account for around 55 per cent of the urgent parcels market and 45 per cent of the non-urgent sector. And there is now almost a pattern of the smaller companies doing better than the big integrators."

He made that comment in the light of the decision by Federal Express to pull out of the UK market and other European sectors.

Predictably, competing carriers have welcomed the reduction in capacity resulting from that move. Typical is the reaction of Mr Robin Davies, general manager commercial and marketing for the Mayne Nickless group's domestic parcels carrier Parceline.

"The express market in the UK has been oversubscribed for some time due to the presence of major international operators and the low barriers of entry. Therefore, the elimination of one particular major operator is to be welcomed," he comments.

Federal Express is the second of the world's four leading global integrators to pull out of the UK domestic express market. Last autumn, DHL effectively did the same by disposing of its UK overnight delivery company Elan through a management buy-out.

That leaves TNT Express as the sole global "big four" player on the domestic British scene, although rumours persist that the industry giant United Parcel Service (UPS) may be about to make its long-awaited move into the market.

Whether or not UPS does,

Continued on next page

COURIER AND EXPRESS SERVICES 3

Operators have found it costly to develop pan-European coverage

On track for a faster service

RECENT moves by giant United States-based parcels carrier Federal Express to pull out of all European domestic and regional operations highlight a more general problem for the international express industry.

Basically, it centres on the desire of carriers to develop full pan-European delivery systems in a market where the traffic volumes are generally not yet sufficient to support their large and costly service infrastructures.

That shortfall between capacity and freight volumes has been particularly evident in the air express sector. During the 1980s, leading operators such as Federal Express, TNT, DHL, United Parcel Service (UPS) and Emery Worldwide all built up their own dedicated air networks in Europe. But in many cases, their aircraft were either under-utilised or carried freight at rates well below those necessary to make such operations economically viable.

With the advent of economic recession at the end of the 1980s serving to accentuate those problems, express companies realised they could not afford to go on running so many different air networks. Increasingly, they started looking at sharing line-haul capacity in an attempt to reduce costs.

The first big move in that context came towards the end of last year when Australian-based integrator TNT Express Worldwide announced the formation of a joint venture with postal services organisation GD Net. As part of that venture, the five post offices belonging to GD Net are now putting their express traffic on TNT's European fleet of British Aerospace 146-QT freighters.

TNT claims it is already seeing significant cost savings as a result of that co-loading and other features of the joint venture. The company says that in northern Sweden, for example, where the local post office is now delivering, the unit cost of delivery has been halved. And similar savings are expected in rural areas of Canada, Germany and France.

That shortfall between capacity and freight volumes has been particularly evident in the air express sector

The TNT/GD Net venture and the subsequent demise of the Brussels-based International Post Corporation line-haul system – which had been used by some 20 post offices – at the end of last year has also led to a general shake-up and restructuring of other post office express distribution operations in Europe.

"We are in a period of transition at the moment as the whole market waits to see how the TNT/GD Net system develops," commented the director and general manager of Brussels-based wholesale organisation Air Bridge Express (ABX), Richard Johnston.

ABX, a division of UK-based airline Air Bridge Carriers, last year signed a contract with the UK Post Office to linehaul Datapost traffic all over Europe and has other similar contracts with the Irish and Portuguese post-offices.

Less dramatic than the TNT/GD Net and Federal Express developments but also very much a sign of the times was an agreement earlier this year between air express organisation DHL and airfreight company Emery Worldwide to share intra- European and transatlantic airlift.

Apart from sharing air line-haul capacity, express companies are also now paying greater attention to the development of road transport operations in Europe. In fact, many industry observers believe the pan-European road freight market, a business now reckoned to be worth around £14bn a year, will soon become the main battleground for express delivery companies.

Some of the opening salvos have already been fired. Late last year, UPS launched a ground-based European delivery operation which, it claimed, offered rates "between 25 and 40 per cent lower than those of other carriers". And TNT relaunched its European road operations with two new services.

Express industry executives admit their increased interest in European road service development has been prompted by both negative and positive factors.

On the negative side is the realisation that operating aircraft is now so expensive that air express services are really only viable for carrying genuine premium-rated traffic. Shipments which do not attract that sort of rate should therefore be transferred to road vehicles.

More positively, express industry executives say many of their leading customers have indicated that while fairly fast delivery times are desirable, reliability is more important. A reliable road delivery at a lower price than air express is often better suited to their needs.

Red Star is planning to use the Channel tunnel for European services

Looking further ahead, certain express industry companies are also beginning to give more serious consideration to replacing – or at least supplementing – some of their expensive intra-European air capacity with rail operations.

DHL, for instance, plans to re-introduce a nightly Paris/Brussels train link in the autumn. The company suspended a trial operation at the end of January because of problems with French customs over documentation procedures for higher value dutiable goods and for economic reasons.

The six-wagon, 60-tonne capacity train used by DHL cost $11,000 to run, about the same as a 12-tonne capacity aircraft on the same route. Now, says DHL, it has resolved the Customs difficulties. That means it can put more traffic on the train, so improving the economic viability.

Meanwhile, British Rail parcels delivery organisation Red Star is firming up its plans for the opening of the Channel Tunnel next year.

First new development will involve a same-day service between London and Paris/Brussels. City-to-city transit time will be around 3.5 hours, with the full door-to-door movement projected to be five to six hours.

Looking further ahead, BR is considering the introduction of dedicated parcel trains running overnight between London and Brussels. BR will run the train as a wholesale operation for Red Star and other parcels industry users.

Predictably, much of the express industry's European market development effort has been focused on the European Community and EFTA countries. However, larger companies have also been strengthening their presence in eastern Europe.

Mr John Monaghan, general manager network development for TNT, said his company planned to develop a "mirror image" of its Western express operations in eastern Europe. "Our aim is to introduce on an increasing scale, scheduled overnight movements to the east with same morning deliveries," he added.

Facts and figures on the actual present size of the eastern European express market, as opposed to much hyped projections of potential future business, are difficult to come by.

However, DHL estimates that as far as the air express sector is concerned, daily total volumes for eastern Europe, inbound and outbound, carried by all operators towards the end of last year, were only averaging around 12.65 tonnes.

Biggest individual market in that region, says DHL, is Hungary which was averaging around three tonnes a day, followed by Yugoslavia (2.5 tonnes), Poland (2.4 tonnes), the then Soviet Union (two tonnes) and Czechoslovakia (1.7 tonnes).

Phillip Hastings

Controlling interest: Parcelforce's distribution centre at Leeds

Fierce competition hits profits

Continued from previous page

few industry observers believe the rationalisation of the UK domestic parcels market will have finished. Mr Johnson of Rickard Johnson believes that "as the recession, the willingness of operators to set prices in the next-day segment closer to those in the two-three day segment, and the negotiating strength of buyers continue to drive down prices, there will be more casualties."

Mr Peter Howarth, managing director of Parcelforce, agrees there could be more rationalisation to come as many operators remain under pressure. He points out that recession caused the next-day sector of the UK parcels market to contract by some 20 per cent in the 1990-91 period and the non-urgent sector, where recession began to be felt earlier, by 40 per cent in the 1989-91 period.

"That left a lot of spare capacity. The withdrawal of Federal Express has helped that situation a bit but there is still a lot of excess capacity around," he adds.

Meanwhile, established carriers in the UK parcels market are scrambling to capture Federal Express's share.

The most immediate beneficiary is the market's second largest carrier, Securicor Omega Express (SOE), which bought the US company's UK domestic parcels business. The deal involves SOE paying £2.6m in cash for goodwill and a further £4.5m in cash for other assets, including dispatch and labelling systems.

SOE formally took over the running of the Federal Express old operations from May 5 and has also become sole contractor for handling its international traffic, except for an area roughly within the M25 London orbital motorway area which will continue to be serviced directly by the US parcels company.

Prior to its decision to pull out, the Federal Express domestic parcels business turnover in the UK was running at something over £40m a year, about 2.5 per cent of the market. SOE's turnover is around £208m, representing 12 per cent of the market, some 2 per cent ahead of the third largest operator, TNT Express.

Mr Pat Howes, SOE chief executive, says his company is

Peter Howarth: believes there could be more rationalisation

expecting to pick up as many as 40,000 additional parcels a day following the Federal Express deal, a 10 per cent increase on its present figure of around 400,000.

Rival companies have launched a fierce marketing drive to capture a share. Parcelforce claims to have picked up some £2m worth of extra business in the first few weeks after the Federal Express pull-out was announced and is negotiating for more.

"Customers don't make instant decisions on whether to change their carrier so it will take a few months before we see who have been the real beneficiaries of the FedEx withdrawal – but we definitely expect to be one of them," says Mr Child.

In the meantime, Parcelforce is moving to complete its operational separation from Royal Mail. It plans to take over the full end-to-end collection and delivery of its domestic premium next-day service Datapost by March 1993. Hitherto, much of that work has been sub-contracted to Royal Mail.

Parcelforce is also looking to take over direct control of some 80 per cent of its standard three to five day parcels collection and delivery activities by the same date. But it will continue to sub-contract some rural area operations to Royal Mail.

A new five-year strategic development plan just announced by Parcelforce includes planned investment of £250m. Part of that expenditure will include the acquisition of some 1,500 new vehicles.

Phillip Hastings

COURIER AND EXPRESS SERVICES 4

New opportunities are opening up in the airfreight industry

Airlines aim for a flying start

RAPID international expansion during the 1980s by new-style integrators offering express door-to-door delivery services initially left airlines and freight forwarders struggling to produce a positive response.

Much of the latter's intra-European air freight and general international package/small parcel business soon disappeared into the hands of companies such as TNT, DHL and Federal Express.

"The fast development of the new integrated transportation concept, especially in Europe, dramatically altered a part of the traditional airfreight scene," said Mr Peter Somaglia, general manager of airline-owned express company Skyracer.

Now, though, the freight industry is seeing growing demand for the same fast door-to-door delivery of heavier parcels and general freight as that available for smaller packages.

Observers say this is opening up opportunities for the forwarders and airlines to fight back.

They argue that many of the early advantages claimed by the integrators are being eroded as those companies are forced to expand already costly air and truck networks to cater for larger freight consignments as well as documents and small packages.

"The express companies defined the product for everyone else. What they did was bring to the market delivery – as opposed to despatch – specifications," said Mr Paul Jackson, chairman of express industry research and consultancy company Triangle Management Services.

"But now most people, including the forwarders, are selling all-in prices covering door-to-door movements. And the speciality of the integrators, owning their own equipment, is not a sufficient plus in terms of economics. In fact, the bottom line is that it is not economic to own all that expensive equipment."

Early airline efforts to combat the competition from integrators proved largely unsuccessful. Several ambitious attempts to set up in-house door-to-door express delivery operations failed, mainly because of opposition from forwarders worried about losing their business.

Internal conflicts over issues such as using the services of other carriers for carrying consignments only added to the airlines' problems.

Such failures have not


Peter Somaglia: traditional airfreight scene altered

deterred some carriers from continuing to try to develop express organisations. Swissair, with fellow Swiss carrier Crossair and Austrian Airlines, has spent the last couple of years developing Skyracer, a door-to-door parcel/document express delivery company. Mr Somaglia explained why Swissair had chosen to set it up as an independent business unit: "The decision not to incorporate these (express) services within the airline was based on the belief that the integrated transportation concept requires overall control and an uninterrupted door-to-door information flow with a dedicated and qualified express-minded staff," he said.

"It was also believed that any 'internal' airline express operation would lack interest in using other carriers for line-haul purposes, making it impossible to offer customers a complete product."

German airline Lufthansa and Japan Air Lines have adopted a rather different approach, apparently accepting that if you cannot beat the integrators, join them.

The two airlines have each bought a five per cent shareholding in air express company DHL with an option to increase it to 25 per cent in June this year.

Since agreement on that deal at the end of 1990, the companies have taken their time establishing external operational and service co-operation. But synergies are emerging. "In the US, for instance, DHL aircraft are being used to carry Lufthansa and JAL freight during the daytime," said DHL.

Most other large airlines are now concentrating on developing wholesale express services for forwarders – and courier/express companies – rather than seeking to build up retail door-to-door services. In that way, they believe, they can continue to work with their main customers rather than competing with them.

One such is British Airways. The carrier has developed a wholesale operation, Speedbird Courier, to provide airport-to-airport services for courier, express and forwarding companies. More recently, it has been developing a wholesale airport-to-door product.

Other leading airlines with owned or affiliated wholesale courier companies include Japan Air Lines (Jupiter) and Hong Kong-based Cathay Pacific Airways (Linehaul Express).

The latter airline, for example, offers an on-board courier service on key routes such as London/Hong Kong; a system-wide parcel/freight express service offering late cut-off at point of origin, fast retrieval of cargo at airport of destination and tracking/tracing; and an enhancement of that service to include clearance and delivery to the door.

Meanwhile, a host of smaller airlines have developed other niches in the international express market. UK-based Channel Express and Air Bridge Carriers provide aircraft for express service operators moving traffic between the UK and Continental Europe/Scandinavia. The latter has also developed its own wholesale express division, Air Bridge Express (ABX).

Skyracer: a door-to-door express company owned by three airlines

Among the best-known of the forwarder-run express delivery operations in Europe are the Eurapid system run by Swiss-based Danzas and the Pandalink operation of US-based airfreight company Air Express International.

Eurapid is road-based, offering fixed-schedule 24/48/72-hour delivery services throughout the European Community and EFTA countries. "We basically promote Eurapid as a faster alternative to normal road groupage services – the key is the guaranteed delivery aspect," said Danzas.

AEI's Pandalink operation comprises two basic products. The air-based 'Red' service, offers 24/48-hour door-to-door delivery and incorporates a straightforward consignment charge and rate per kilo tariff. The 'Blue' service uses road transport to reduce costs at the expense of longer transit times.

Scandinavian forwarding group ASG provides an intra-European express freight service based on nightly freighters linking the UK, Continental Europe and Scandinavia. "Those air links enable us to offer next day delivery of virtually any size of parcel or freight throughout Europe and Scandinavia and before 7am delivery in the capital cities," said Mr Jim Shortall, managing director of ASG (UK).

In addition to competing with integrators for heavier freight traffic within Europe, forwarders are also looking to work with airlines in longer-haul express markets.

Forwarders say information technology systems enable them increasingly to match the ability of the integrators to electronically track consignments around the world.

And, say forwarders, they have greater flexibility than the integrators when it comes to handling larger consignments.

Phillip Hastings

Tracking technology is becoming increasingly sophisticated

Barcoded for speedy recognition

IN AN industry where speed and reliability are vital, courier and express operators' consignment monitoring would make Arnold Schwarzenegger's tracker robot Terminator feel at home.

Automatic identification technology, which can pinpoint a parcel in a network, whether it is travelling to Telford or Timbuktu, has always provided customers with reassurance that the carrier is in control. The trend is towards enhancement of this system.

Millions have been spent in this and other information technology (IT) areas, as companies seek to gain the technological edge in a competitive industry squeezed by recession.

Tracking and tracing is a simple idea. Consignments are given a unique barcode by which they can be followed through a distribution system.

Mick Linsell, systems director of the top player in the UK express parcel market, Royal Mail Parcelforce, describes barcoding as "the integral efficiency product".

Parcelforce, which claims a 30 per cent share in the market, has just invested £3m in an international distribution centre, one component of which is interfacing with track-and-trace systems.

A further multi-million pound investment is planned for an new automatic sorting centres in the UK, which will integrate track-and-trace using the barcode technology.

"My personal view on track-and-trace in the domestic operation is that consignments should be delivered so quickly you don't have time to find out where they are," said Mr Linsell. "The trend is not away from track-and-trace, but the enhancement of it – more is being done with the barcode information, and we are getting more functions out of our investment and there are huge incremental benefits in speed and reliability."

Another UK domestic parcel operator, Parceline, is investing £2.5m in IT, including the integration of parcel tracking and billing operations.

Automatic identification technology, which can pinpoint a parcel in a network, whether it is travelling to Telford or Timbuktu, has always provided customers with reassurance that the carrier is in control

Parceline's hub and technical services manager, Chris Ogg, said: "Added value through technology, which gives the comfort factor to customers, is becoming a major issue as operators are fighting for the same clients in a similar market.

"We have witnessed an emphasis on confirmation on proof of delivery information, and are bolting on technology to our track-and-trace systems to deal with it. One major advance is that we now have the ability to give full image reproduction of a consignment for POD purposes."

DHL is investing £7.5m in IT in the UK this year. It currently has EasyShip On Line – a tracking and tracing advance for high-volume shippers, which means these customers can now trace worldwide movement of consignments from their own offices.

"Most customers are saying now they want to track more pieces, and they want information on them more quickly," said Charles Brewer, after-sales manager, DHL International (UK). "There is more anxiety in business in this current economic climate, and demands are higher than in the past.

"The comfort factor is still very important for customers, especially when they are involved in the just-in-time method of operation, which involves regular stocking of empty shelves."

DHL is also looking to another track-and-trace advance, which has nothing to do with sophisticated technology – improvement in personal service. In November, the company introduced a 24-hour, seven-days-a-week tracking and tracing service, which means it can contact international colleagues to get immediate information on a consignment.

Mr Brewer said the company was also recruiting staff with foreign languages, to reduce the margin of error when tracing consignments overseas.

UK player Securicor Omega Express, which delivers 1.5m parcels a week, has completed


Trace element: a tracking facility in use at Heathrow airport

the first phase of a five-year £25m investment in IT, which includes enhancement of tracking-and-tracing technology. Here again, the comfort factor comes into play, in the form of Signline, a nationwide confirmation-of-delivery system based on scanning the barcodes on all consignments which customers ring in to use.

The company's systems manager, Phil Whitlock, commented: "Without technology, a carrier is going to lag behind. The main impetus is for carriers to communicate billing and receiving."

Australian express giant TNT is also re-equipping systems within the UK operation, at a cost of between £2.6m and £3m.

TNT Express UK's general manager, domestic development, Nigel Barton, said: "Not only are we bolting on to our track and trace, we are completely re-writing our systems.

"What we are doing effectively, from a commercial point of view, is adding value to get a competitive edge. Reliability is the key... The systems also enable us to monitor our own internal quality, which is extremely important if we are to give the best service to our customers.

"There is certainly more and more demand for information as companies look to operators as an offshoot of their own business, rather than just a parcel carrier. Customers tend to regard us as their own fleet."

British Rail Red Star express parcel division spent £750,000 on a special system, which gives customers the technology to track their own consignments' progress through the distribution chain.

The system – known as TRAC – is PC-based and provides customers with a live on-line link to the Red Star Parcels' mainframe computer. It gives on-line proof of delivery, and generates an invoice and manifest. It is currently being used by high-volume customers, which include IBM, and is updated every three months at the cost of £15,000.

IBM's storage services manager, Brian Fisher, said the company had been using Red Star for a number of years, and the paperwork system used before TRAC had been messy.

"It has certainly tightened things up, and the additional control it gives us, of knowing where a parcel is, is a positive advantage," he said. "We use Red Star for overnight emergency service, which means it is vital for customers to know where their consignment is, if for some reason it does not arrive on time.

"We look to our carriers to give us a good service, and this is certainly an enormous leap forward in those terms."

Janina Walker

Motorcycle couriers hit hard

Bikes given a rough ride

RECESSION is continuing to give a rough ride to the motorcycle couriers. Liquidation and consolidation are still key factors within what is essentially a transient, fragmented industry business. It thrived in the 1980s and became the very essence of the free-enterprise culture.

It is difficult to put figures on this niche of the express market which has always had its roots based locally. It is generally believed, however, that what is happening in London could be occurring throughout the rest of the country.

In the capital the very nature of a business, which anyone can enter, is proving a headache for those left in the field.

While insiders estimate hundreds of enterprises up and down the country have fallen victim to the recession there are still plenty of operators.

With customers cutting costs there is a shrinking market place. It is a recipe for chaos as companies struggle for a slice of a much smaller cake.

"The situation is getting ridiculous, says Mr Malcolm Bluemel, managing-director of express courier Rapid Despatch, which has a £4m turnover and has offices in London and Birmingham.

"There is a massive price war going on at the moment which will get worse before it will get better."

"People are so desperate they are running non-profitable businesses because they are cutting their prices to the bone. The problem is that the market is just too easy for anyone to enter and is so fragmented."

"Without a doubt there is a market for our services in legal, advertising, accountancy, publishing and music businesses but there is a greater awareness of costs and margins are being squeezed."

Mr Bluemel has recently acquired another express courier company and sees consolidation as the way ahead for the business.

"I believe that to have a future the industry should be in the hands of maybe five or 10 major operators in a couple of years," he says.

"What we need are economies of scale, more investment in technology to give customer confidence and meet their requirements. We have to get away from the idea that we are the poor relations of the courier and express industry out to make a quick buck."

Addison Lee, which has four London offices and a £7m turnover, handles more than 2,000 customer accounts in the London market.

Mr John Griffin, its managing director, describes the London market – generally believed to be the biggest and worth £150m a year – "as extremely tough." He estimates that ithas shrunk by 28 per cent.

Mr Griffin says: "Customers are spending less and I am back to the days when I rolled up my sleeves and started up my business in an empty room.

"There is a price war going on. Competition is becoming suicidal as companies as a last resort cut prices to unacceptable levels. It is just not a sensible solution as these people will eventually go down.

"It is just too easy for people to start up who don't have the knowledge and experience to run a business. I believe that in the end there will be a polarisation within the industry of those who have managed to survive these extremely tough times."

Mr Paul Meunier, a director of north London express courier West One which operates on a national and international basis through agents, believes the business has changed.

He says: "We still have a role to play but I think it won't quite be the same as the heady days three years ago.

"Our figures are down and they won't get back to the same level – alternative methods have been found for the service we provide. It used to be a gut reaction to call for a bike but I don't think that is the case now."

Mr Meunier believes that, although there would always be room for the small operator, the business would move in the direction of large companiesable to make the necessary investment in technology.

Although hundreds of enterprises have fallen victim to the recession there are still plenty of operators

"There is definitely a move among our clients towards using technology. There are customers who would like to have a modem of their own in their offices and asking if we can provide it – there is no doubt that it is available but it is a new thing for us and we are looking at it."

West One have also shifted ground by moving into the national overnight service business which they started in October last year.

Mr Meunier says: "This is a new venture for us. We always thought our niche in the business was slightly different but our customers are availing themselves of these services to save money so we felt it was right we should break into them."

Mr Paul Jackson, of Triangle, specialist management consultants to the freight and transport industry, has no doubt that this niche of express services is losing customers.

He comments: "People have downtraded considerably because they are questioning using 'same day' – they can always fax or arrange a delivery for first thing in the morning."

"There is also (the question of) economies of scale. Ninety per cent of motorcycles go one way, it's ludicrous and certainly doesn't make sense – no transport business succeeds on a one-way basis."

"I believe that unless the larger companies wrestle with this and other things such as balancing loads, introducing track and trace systems and computer mapping, they will just go on the same old merry-go-round."

Janina Walker

Security is a crucial consideration for the industry

Playing it safe on the front lines

ALTHOUGH it has dropped out of the limelight since the Gulf War brought it into a blaze of publicity security is now a crucial consideration for the international courier and express industry. With many shipments travelling in the holds of passenger aircraft, courier and express companies are in the front line of the global battle against terrorist activity.

The risk of courier and express consignments being used by terrorists to place explosives on board aircraft was highlighted at the 1991 World Express Freight & Distribution conference in Amsterdam by the chairman of the Association of European Airlines security committee, Teun Platenkamp. "There seems no doubt that terrorist groups will attempt to conceal explosive devices in cargo, express and courier packages or mail," he warned.

The same packages can be – and have been – used for smuggling drugs and other illegal items. For this reason, express operators are anxiously waiting to see how EC countries organise their Customs checks once border controls are abolished to create the Single Market. Shippers who fail to declare dangerous goods are another problem.

However, the main thrust of current government air transport security legislation around the world is predictably focused on combating the threat of terrorist attacks on aircraft.

There has already been at least one documented terrorist incident involving a courier and shipment. In 1989, an explosion in the lounge at India's Calcutta International Airport was found to have been caused by a courier parcel packed with explosives. The parcel was destined to be put on an aircraft heading for Bombay. However, it was the earlier Pan Am Lockerbie disaster at the end of 1988 which really started to concentrate international attention on the urgent need to tighten up general aircraft security.

Previous legislative moves by individual government and transport organisations such as the United States Federal Aviation Administration (FAA) and the International Civil Aviation Organisation (ICAO) had proved largely ineffective.

It took Lockerbie, and two other aircraft bombings in 1989 – a French UTA aircraft over Niger and a Colombian Avianca flight near Bogota – to prompt governments to consider new air transport security measures.

In the UK, it has led to moves to establish a register of couriers, express companies and airfreight forwarders with recognised security clearance when it comes to shipping goods by air. Representatives from the UK airline, airport, forwarding and courier and express sectors, plus Customs, have met Department of Transport officials on several occasions to discuss the sort of measures companies must take in order to qualify for such registration. Industry observers now expect an Approved Cargo Agent Register, as it will probably be called, to be in place by the beginning of 1993.

The idea is that companies listed on the register will be given preferential treatment by airlines when it comes to accepting shipments. Such companies will be deemed less of a security risk in terms of possible terrorist activity and will therefore generally find their shipments subjected to less scrutiny by the carriers.

According to the most recent consultative paper on air transport security presented by the Department of Transport, companies seeking "approved cargo agent" registration will have to set up security programmes covering three broad areas of activity.

The first will centre on some form of pre-employment screening for new personnel, probably along the lines of that already in place for airport employees following the Pan Am Lockerbie tragedy.

The second area for attention will be the physical security of all facilities and vehicles involved in the preparation and transport of goods before being flown.

The third group of measures will centre on the use of screening systems, both in terms of handling procedures and technology such as X-ray systems.

"The paper shows a very firm intention to move the legislative focus further upstream. It implies there will be controls within air cargo operations from airport security through to building and vehicle security," said Mr David Forbes, group security manager for TNT Express Worldwide. "I think that approach is right. We believe that everyone should be doing things to relieve the pressure on the airlines when it comes to security matters."

The risk of courier and express consignments being used by terrorists to place explosives on board aircraft was highlighted at the 1991 World Express Freight & Distribution conference in Amsterdam

The UK Department of Transport has in the past been criticised by express industry companies for failing to properly understand the needs of their business, particularly when it comes to reconciling security requirements with the need for fast transit. But, say industry sources, communication between the department and the industry on that issue is improving.

Other governments around the world, however, seem to be moving rather more slowly. Even the initially positive United States Federal Aviation Administration became bogged down on the issue. It ran into problems with the US Post Office which claimed that all mail carried on aircraft was sealed against inspection and protected by law.

There has been considerable argument over whether consignments carried on all-cargo aircraft should be subject to the same security checks as those on passenger aircraft. The US FAA appears to have accepted that cargo carried on freighter and passenger aircraft can be treated differently when it comes to security.

The UK Department of Transport, on the other hand, has indicated it is not prepared to make any distinction between freighter and passenger aircraft freight. "The last thing we, as a company and as an industry, need is to end up with different sets of rules on security in every country where we operate," said TNT's Mr Forbes.

"There is a danger that could happen but there have recently been some signs that governments around the world are starting to get it together more. Certainly, the UK, US and Australian governments seem to be moving in the same direction, although the rest of Europe does seem to be lagging behind a bit."

Another general problem confronting the courier and express industry and other air transport organisations seeking to improve security is the lack of suitable equipment for checking the contents of parcels and larger cargoes. Both X-Ray machines and equipment employing Thermal Neutron Activation (TNA) technology, which basically "sniffs" the air for explosives particles, have failed to prove particularly reliable in use. The latter also has quite a high false alarm rate which slows down the checking process.

As a result, it has been estimated that London Heathrow airport, for example, would need six TNA units, average length 34ft and costing US$1m, just to check baggage.

Rather more practical, it appears, is the application of a concept called the "the known or unknown shipper". The basic idea is that courier, express and all other companies involved in moving goods by air should make a clear distinction between the way they handle and check shipments originating from shippers known to them and those coming from unfamiliar sources.

It is known, for instance, that the courier and package which exploded at Calcutta airport in 1989 was originally collected from a man staying in an hotel.

Phillip Hastings

Janina Walker looks at the impact of environmental issues on operators

Fleets take on a greener shade

BEING green was once the prerogative of people who wore flowers in their hair – *now it* is a powerful, emotive issue which has become a crucial factor for express and courier operators.

London's controversial red-route scheme to cut traffic con*gestion has raised fears that it* would affect deliveries if repeated nationwide.

Tougher environmental legislation has made carriers look at "greening" their fleets and increased public pressure *against night-time activities* at airports has become a problem for some operators.

Lynx – a National Freight Consortium company, which handles more than 25m parcels annually – was particularly *vocal in their fears last year* that the red-route would hamper operations.

The scheme is in *operation* on an eight-mile stretch of road between north and east London. Parking is banned at any time *on double red lines*, with time restrictions on single red lines and designated loading and unloading bays.

Mr Alan Soper, managing director of Lynx, said: "The general view at the moment is that it has not caused as many problems as expected because it is in such a limited area.

"However, if it were the norm then it would certainly have an effect on our deliveries and begin to have an impact on the cost.

"Really, this is about a whole host of issues and a balance has to be struck between several competing interests. I think it is untenable that a road should be separated from its shops.

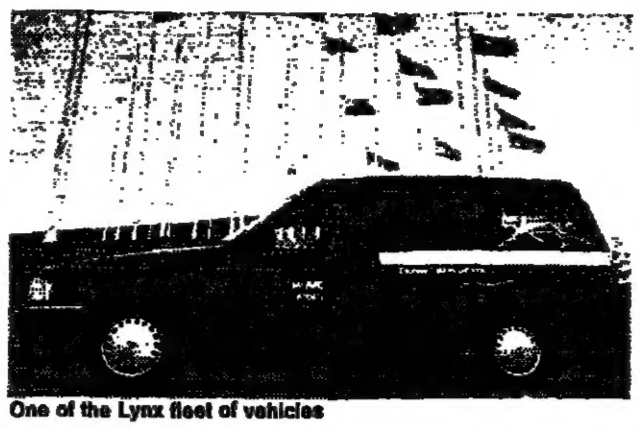
"The real skill is to make a good, balanced decision taking pollution, the free flow of traffic, business, and what people really want into consideration."

Noise pollution from jets has come under increasing fire from environmental pressure groups – in Holland, Maastricht airport has been one of the main targets for campaigners and the Dutch department of *transport has recently* banned all night flights for the time being.

In March, express freight company Emery Worldwide

David Burton: night flying ban would be a disaster

Alan Soper: roads should not be separated from its shops



One of the Lynx fleet of vehicles

finally pulled the plug on their Maastricht hub and moved to Brussels airport following a deal with DHL to share space *on transatlantic and inter-European* flights.

Mr Chutta Ratnathicam, Emery vice-president International, cited increasingly restrictive night flight curfews as one of the crucial factors in *the decision to discontinue* operations at Maastricht.

The company now operates from the DHL hub in Brussels and the DC8s which were used at Maastricht are being deployed elsewhere.

XP Express Parcels *Systems*, who pulled *out* of Maastricht two years ago after being acquired by TNT, also experienced problems with the green lobby.

Mr David Burton, general manager XP International,

Increased public pressure against night-time activities at airports has become a problem

said: "There was talk of imposing a night flying ban which for an express parcel company is *tantamount to disaster*.

"At the time we were using F27s and to get the fleet up to environmental scratch would have been a significant investment by KLM who owned us at the time and I think it was one *of the reasons* XP *was put on* the market."

XP now operate from TNT's hub at Cologne airport using the BAe Quiet Trader aircraft

Quiet profit-maker: one of TNT's fleet of freighters

which represent a \$400m investment in greening by the company.

TNT's 20-strong fleet of BAe Qt 146s – known in the industry as the quiet profit-makers – are said to be the quietest in the world and serve 17 European countries and 31 cities and converge at the Cologne hub every night.

Mr Burton said there had been various attempts to lobby for at least an examination of night-time activity at Cologne which is also used by leading operator UPS.

Global express carrier UPS does not intend to be caught out over environmental legislation and, according to company spokesman Mr Ken Sternad, are making \$4bn investment to ensure their aircraft meet what he described as any regulations anywhere in the world.

Their DC8 fleet – some of which are used in Europe – have all been fitted with new environmentally sound engines at the cost of \$400m.

Mr Sternad said: "It makes good business sense to have an engine on an aircraft that is environmentally sound, fuel efficient and that will give a tremendous new level of maintenance and reliability which is critical in our industry.

"There is a growing awareness about the environment not only among legislators and the general public but also among our customers who use it in making a decision on their choice of carrier."

In the UK, green policies are high on the agenda at the Royal Mail – by far the largest domestic carrier. The Royal Mail has a 28,500-strong road fleet with an annual mileage of 460m miles a year.

On May 14 three new vehicles which could be the prototypes for the next generation of cleaner, greener transport fleets, were unveiled.

The vehicles, developed by the Royal Mail and Leyland DAF, use less fuel, have equipment to cut out black exhaust fumes, make *minimal* noise and carry the latest computer technology.

They will be road-tested this month and it is likely their must successful features will be included in all new Royal Mail vehicles.

Mr Ray Bayfield, head of road transport at Royal Mail,believes that it is important to do what they can to make the world a greener place.

The Royal Mail is no stranger to greening – they *have already completed* a six-year programme of converting their vehicle fleet to unleaded fuel and are still testing two 17-tonne "green" trucks.

Express parcel carrier City Link have this month added the sixth environmentally-friendly vehicle to their fleet.

The two-tier, 38-tonne trailer, can carry the load equivalent of almost two conventional articulated lorries and has an engine which meets EC regulations, including lower noise and exhaust and emission levels.

Mr Duncan Brazier, City Link national transport development manager, said: "With any company today there is an across-the-board perception of the need to be environmentally friendly. On a publicity basis, *if nothing else, we all accept* that if we are going to operate effectively we must look at what we can do to lessen our impact on the environment.

"It is not very often that you can reduce operating costs and be ecologically friendly but we have been able to do just that with this new vehicle."

Mr Brazier added that City Link could possibly add more of the special vehicles to their fleet in the future if volumes merited the need for them.

The tunnel will open a new route to Europe

Plans for high-speed parcels train

THE ALTERNATIVE route to Europe, which the Channel tunnel will eventually provide for courier and express business, *is the subject of intense* discussion and speculation.

Global express operator DHL has announced that it is seeking partners in a venture to set up a European parcels train, to run through the tunnel.

The company has been negotiating with British Rail and its French and Belgian counterparts, SCNF and SNCB, for some time, though DHL's chief executive, Patrick Lupo, has refused to discuss in detail the *nature of the talks*.

"We *see a* great opportunity in terms of express traffic going through the tunnel when *it is fully operational*," *he said*. "It has to be a high-speed rail link, but the critical factor is that it is the optimum speed to provide the transit times customers require. If other parties are interested in this, we would *like to hear from them*."

Mr Lupo said the transport minister ought to encourage such export traffic. The UK manufacturing base, he said, required a transport infrastructure that would merge more effectively with that on the continent.

DHL is no stranger to letting the train take the strain. Later this year, it plans to switch its air and road operations between its Brussels hub and Paris to an overnight rail service. The company is investing \$1m to build its own terminal at Paris La Chappelle station, and to modify rolling stock for air express sorting.

Neil Firth, network planning manager, Europe and Africa, said: "A train allows you to do something while you are in transit – sorting and administrative activities. The move towards trains is also a defensive move, to cover the geography that a truck can. There are also lots of pressures, environmental and practical, in getting slots and operating out of airports at the moment.

"The economics are that a train is roughly the same cost as an aeroplane. There is a difference with a train, in that, as volume grows the incremental costs become smaller in the longer term, which is strategi*cally much better*."

The European parcels train, which, according to Mr Firth, would be an 18-carriage TGV, purpose-built to run through the Channel tunnel, would operate some time after the *tunnel was opened*.

Andrew Wilby, business manager for Channel tunnel parcels, European Passenger Services, said British Rail envisaged two European parcels trains, which would each carry *176 tonnes of express* freight:

"They will contain roller beds for carrying containers, *which is aircraft technology* – the trains, *in effect*, will be wingless aircraft. They will make the journey to Brussels airport in around three hours, just the sort of time-frame within which an aircraft works.

"However, a train is going to be considerably cheaper, and I understand they are more reliable than aircraft... When an aircraft is grounded because of fog or snow, it tends to be incapacitated *for a long time*, whereas a train would probably be just an hour late."

British Rail's Red Star, which handles 6m parcels a year, uses air and sea to carry consignments across the Channel. It has a same-day service from London to Amsterdam, Brussels, Paris and Rotterdam. When the Tunnel opens, it plans to run a same-day scheduled service to Paris and Brussels, on the back of passenger trains.

Roger Harrison, Red Star's public affairs manager, said: "There is no doubt that the Channel tunnel will be a boost. The capacity for sending light freight and documents will be quite extensive. On top of this, an hourly train service across the Channel will give flexibility – and, of course, a train is reliable as it is less prone to the effects of adverse weather conditions such as fog as aircraft are."

Consignments on trains from London's Waterloo station will be carried under bond, in total security until they reach Paris *and Brussels*.

"The train journey time will be three hours to Paris and under three hours to Brussels, with customs clearance post-1992 making deliveries well within a working day," said Mr *Harrison*. "*The inter-city trains* have to be a winner, because they provide three key factors – reliability, capacity and frequency." Mr Wilby said the tunnel would give operators an alternative international route *in a market that was growing* by about 20 per cent a year.

He emphasised that the express services which would use the passenger trains would not be an open system, and that Red Star would be acting as agent for private operators.

"Security is of prime importance," he added, "and there will be a barrier to couriers who *want to just board a train* with parcels. Regulations will have to be strictly enforced."

Paul Jackson, of Triangle, specialist management consultants to the freight and transport industry, said the tunnel *offered the industry much* potential:

"The main advantage of using a train is being able to sort out packages while they are in transit. There are also some congestion problems with jets at various European airports and rail offers an alternative."

The Red Star retail product would be given a great opportunity, but "it is worth remembering that you have to be as good as your railway partners on the Continent. If the railways got their act together, I believe there would be a real threat to the European parcels industry."

"There is no doubt that this is an exciting time for the industry, but it also could be a difficult one, because the difference between theory and practice is one of the widest in the whole transport system."

Janina Walker


United Parcel Service